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ECONOMIC INTELLIGENCE WEEKLY REVIEW

12 October 1978

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Articles

SYRIA: POOR MANAGEMENT OF ARAB AID

Despite sizable Arab aid inflows since the October war with Israel, the Syrian economy is showing signs of serious wear and tear. Largely reflecting governmental neglect and public waste and mismanagement, real GDP growth has plummeted, inflation is rampant, and a widening financial gap has boosted foreign debt and made Damascus even more vulnerable to the arm-twisting of its Arab benefactors. Further gradual deterioration of the economic situation seems likely, especially as the attention of top officials in coming months will be focused on the war in Lebanon and fallout from the Camp David Summit rather than on the economy.

Footing the Military Bill

An expanded military effort since the 1973 war would have been impossible without Arab money. In 1973-77, the oil-producing Arab states transferred \$3.2 billion in financial assistance, which mostly went to pay for major purchases of weapons. Saudi Arabia has been the largest bilateral donor, coughing up \$1.5 billion in the period. The Arab League is donating \$180 million a year to pay the 30,000 Syrian troops in Lebanon, an amount that Damascus claims seriously understates the actual foreign exchange cost of its intervention in the civil war.

Precise estimates of Syrian military expenditures are hard to come by. Military appropriations for salaries and other current budget items have risen fourfold since 1972, to \$1.1 billion this year; the US Embassy in Damascus believes that actual outlays rose even faster. Arms deliveries, mostly from the USSR, totaled an estimated \$3.5 billion in 1973-77, the bulk being financed by short-term supplier credits or cash on delivery.

Strong Economic Support from the Arabs

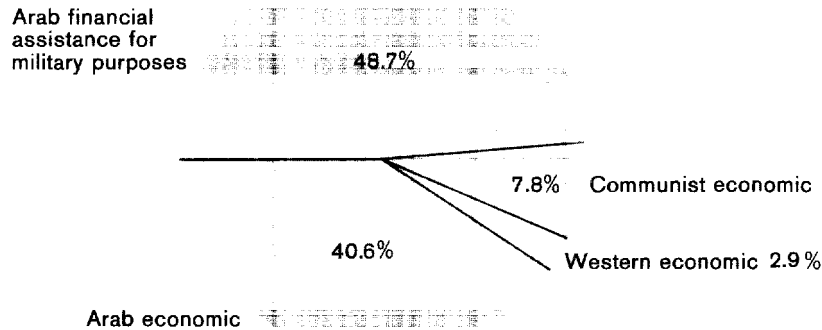
Arab economic aid disbursements have enabled Damascus to increase nonmilitary expenditures along with its defense outlays. In 1973-77 the Arab countries

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Syria: Aid Disbursements, 1973-77

US \$6.6 Billion



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donated \$2.7 billion to Syria—more than three-fourths of total economic assistance received. Again, Saudi Arabia was the biggest benefactor, supplying more than \$1 billion in the period, followed by Kuwait and the United Arab Emirates with several hundred million dollars apiece.

A large part of the Arab economic aid stems from the agreements signed at the Rabat Summit Conference of 1974, where the wealthier Arab nations pledged help for the Arab confrontation states. Continuation of these payments has been subject to considerable haggling. Aid flows were cut off in late 1976, apparently in an effort to force restoration of Arab unity between Syria and Egypt. Syrian foreign exchange reserves fell \$374 million that year. Aid was resumed in mid-1977, but the donor countries have not yet made any commitments to continue payments beyond 1978.

Western economic aid disbursements have amounted to less than \$200 million in 1973-77. Although US economic aid commitments ran about \$100 million annually, outlays lagged due to Syrian negligence in drawing up project plans; FY 1980 US commitments, awaiting final Congressional action, come to \$90 million. Damascus also has dallied in drawing down Communist economic aid commitments, with \$800 million in unused project credits, about one-half from the USSR. At about \$515 million in 1973-77, Communist disbursements outpaced Western economic aid but still ran far below Arab outlays.

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Fiscal Fiasco

Swollen by a bureaucracy that serves as a surrogate for unemployment insurance, nonmilitary expenditures have far outstripped economic aid inflows in recent years. Coupled with price controls on many basic commodities produced by public enterprises, the large increases in public spending have led to ever-widening budget deficits. To make up for revenue shortfalls, the government has expanded the money supply at a 28-percent annual rate. The rise in the official consumer price index, which contains many items whose prices are fixed, was held to only 8.7 percent last year; the actual cost of living increased at least double this rate and currently is growing at 15 to 20 percent annually.

Many expenditures, moreover, have been wasted on poorly conceived and operated public enterprises, which account for a large share of Syrian economic activity. Reflecting shortages of properly trained labor and poor management, the public-sector enterprises reportedly are performing at only 40 percent of capacity. Three sugar refineries and a detergent plant stand completely idle because Damascus feels this alternative is cheaper than subsidizing their inefficient, uncompetitive operation. The shortage of skilled labor available to the public sector has worsened during the past several years as workers have left for better paying jobs in Arab oil countries or the private sector where wage rates are not restricted.

The private sector has been harassed by a growing number of nitpicking regulations seemingly designed to eliminate competition to public firms. Corruption is rampant; bribes must be paid to public officials if entrepreneurs are to stay in business. For instance, earlier this year Damascus retracted private import quotas on ready-made clothes, ostensibly because two new government clothing factories were to open. In fact, the public factories will not open until early 1979 and in the meantime Ba'ath officials reportedly are offering to sell the quotas to the highest bidders. Because of such practices, unrealistic government pricing policies, and the poor quality of public sector output, a black market thrives (predominantly in consumer goods) and may account for the equivalent of 20 percent of GDP.

Economic Growth Falters

Souped up to a 13-percent average annual rate in 1974-76 by the initial large inflows of Arab money, GDP growth has dried up. The economy began to show signs of stagnation early last year when several important investment projects had to be postponed because of foreign exchange shortages. Later in the year, bad weather reduced agricultural output, which accounts for 15 percent of GDP; the important cotton crop was down by about 5 percent and the barley crop was a total failure

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Syria: Real GDP Growth

Percent	19.0						
			12.9				
	9.7				8.4		
		2.2					
						0.5	
1972	73	74	75	76	-1.0	78 ¹	
					77 ¹		
					1. Estimates		

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because of drought. Distribution was set back when the government decided to market fruit and vegetables itself, banning street vendors.

This year the economy does not appear to be expanding much, if at all. Private businessmen are reluctant to invest due to the uncertainties created by the Lebanese situation and compounded the post - Camp David atmosphere. Additional antibusiness measures by the government are not helping; in March, for instance, the lucrative urban bus routes were taken over by a public bus service, relegating private firms to servicing rural routes. Public-sector output remains sluggish, and current mismanagement will likely persist until top officials are able to concentrate on the economy. Despite better weather, agriculture remains in the doldrums because of shortages of capital and technical assistance.

Financial Gap Widens

Irrespective of the domestic stagnation, Syria's civilian financial gap has continued to grow. The value of imports, which expanded at an annual rate of 55 percent in the 1974-76 boom years, surged again last year, in part because public enterprises

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Syria: Balance of Payments

	Million US \$				
	1973	1974	1975	1976	1977
Merchandise trade	-213	-256	-495	-1,036	-1,528
Exports	356	783	930	1,066	1,064
Oil	76	432	642	665	640 ¹
Civilian and indirect military imports	569	1,039	1,425	2,102	2,592
Services	150	-37	-118	-190	136
Private transfers	37	44	52	53	92
Civilian financial gap	-26	-249	-561	-1,173	-1,300
Arms imports	-1,273	-1,023	-317	-457	-420
Total financial gap	-1,299	-1,272	-878	-1,630	-1,720
Financing the gap	1,577	1,359	1,113	1,256	1,992
Economic aid	64	672	928	759	965 ¹
Military aid	850	1,790	95	200	280
Long-term capital	25	0	-10	270	312
Other capital	638	-1,103	100	27	435
Change in reserves	278	87	235	374	272

¹ Estimate.

were unable to produce enough decent-quality goods. A cutoff in April 1976 of oil flows from Iraq, when Damascus was unable to negotiate a new deal for Iraqi crude, also has boosted the import bill. Syria had been refining Iraqi crude for domestic use, buying at \$3.05 per barrel; now Damascus must pay world prices for the type of crude required by its refineries. Syria also lost the 41 cents per barrel transit fees collected from Baghdad for Iraqi oil flowing through the Kirkuk-Banias pipeline; in 1975 these earnings had come to \$138 million. At the same time, export earnings have leveled off as oil revenues—about 60 percent of total exports—have faltered. Oil production fell 5 percent last year, to 180,000 b/d, reflecting slumping demand on the spot market for poor-quality Syrian crude and government efforts to go slow in the face of disappointing discovery rates.

The civilian financial gap this year will likely rise again, to about \$1.5 billion. Crude oil export revenues are continuing to slip; estimated oil production for the first half of 1978 was 3 percent below output in the same period last year. Imports of machinery and equipment for ongoing development projects will continue to rise, although total import growth probably will ease off from last year's rate.

An increasing number of transactions may take place outside the official accounts since Damascus has announced that importers will not be prosecuted for black market operations. In this way, the government hopes to maintain the inflow of consumer goods—including those looted in Lebanon—without drawing down foreign exchange

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reserves. An estimated \$750 million in imports in the 12 months through May 1978 were paid for on the black market. Foreign exchange for these illegal transactions is obtained for undeclared worker remittances—mainly from laborers who left Syria illegally—who provide about \$250 million annually. Smuggled returns on investments abroad and graft on government import contracts also provide black market foreign exchange.

Arab Leverage

Because of the large Arab aid inflows, covering the financial gap has so far presented no great problem for Syria. Indeed, with the exception of 1976, reserves have mounted, to about \$500 million currently—equivalent to about two and one-half months' imports. The situation is fragile, however, hinging on continuing support from Saudi Arabia and other conservative Arab countries, which already have demonstrated their willingness to use their leverage for political purposes. At the least, Syria will almost certainly experience occasional cash flow problems since aid inflows may not always coincide with military and development outlays.

Without continued support from the conservative Arab states, Damascus would have to: (a) appeal to other aid donors—most likely Libya—for additional funds and/or (b) launch a painful budget-cutting program. The former would probably entail some political cost; the latter would be met by popular resistance since controlling the budget deficit by reducing subsidies, raising prices, and closing the most inefficient public enterprises would make prices and unemployment go up simultaneously.

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SOUTH KOREA: BIG TIME EXPORTER OF MANUFACTURED GOODS

South Korea, moving agilely and aggressively in response to shifts in international demand, has established itself as the number-one LDC exporter of manufactured goods to developed country and Third World markets. By the start of the 1980s, annual manufactured sales should reach the \$15 billion level. This would entail a further substantial increase in South Korea's share of import markets in major industrial countries. Although continued export gains will be accompanied by a variety of formal and informal government promotion programs, the key success factor will remain the demonstrated ability of South Korean businessmen to respond to changing market requirements.

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Export Dynamics

Since the late 1960s South Korean export gains have outpaced those of any other major trading country. During this period, foreign sales have gone from only a few hundred million dollars annually to \$10 billion last year; they should top \$12.5 billion in 1978. Manufactured goods account for 85 percent of total exports and practically all the 31-percent annual growth in sales volume achieved since 1970. South Korea's share of LDC exports of manufactured goods has risen to nearly 20 percent compared with only 8 percent in 1970.

Labor-intensive, consumer-oriented commodities have been Seoul's biggest sellers; textiles, clothing, footwear, plywood, and electronics account for half of total foreign sales. Considerable diversification and quality upgrading have taken place within these traditional light manufacturing lines as South Korean firms have responded quickly to changing international market conditions. Textile exports, for example, now consist mainly of high-quality synthetics instead of inexpensive cotton fabrics. Electronics exports have moved from components and parts to whole consumer goods and industrial equipment. A host of new products have also appeared; exports of travel goods and handbags, for example, increased from \$2 million in 1970 to \$189 million last year.

But the most dramatic change in Korean export patterns has been the rapid expansion in sales of heavy and technology-intensive goods. Sales of transport equipment—primarily ships built at the ultra modern Ulsan shipyard—have grown from \$9 million in 1970 to an anticipated \$1.1 billion in 1978. Since the completion of the Pohang iron and steel complex in 1973, metal product exports have risen to almost \$1 billion annually. Sales of cement, fertilizer (Korea has the largest chemical fertilizer plant in the world), and precision instruments have also skyrocketed.

Market Penetration

The South Korean trade assault has focused heavily on the United States and Japan, which take one-half of South Korea's exports. Western Europe has also received increased attention in the 1970s as Seoul has attempted to diversify export markets. As a result of gains in all these major industrial markets, South Korea now accounts for almost 3 percent of OECD imports of manufactured goods* and 20 percent of imports of these items coming from all LDCs. South Korea has also scored well in Third World markets; OPEC countries, especially, are laying out large sums on South Korean construction materials, steel products, and other manufactures.

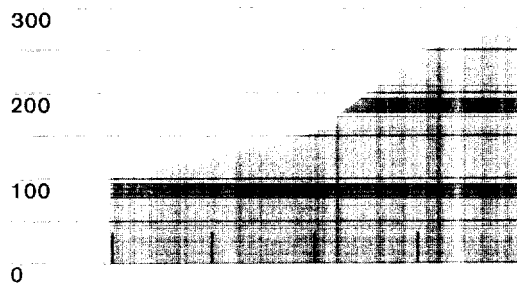
* Intra-EC trade is excluded from the statistics in this article.

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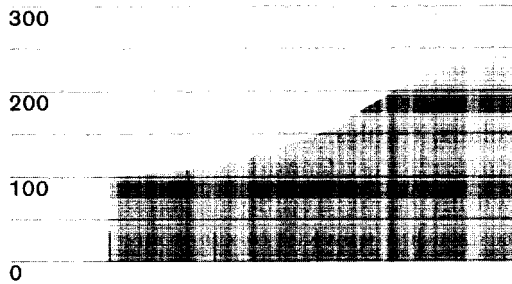
South Korea: Commodity Export Trends¹

Dollar Value Index: 1973=100

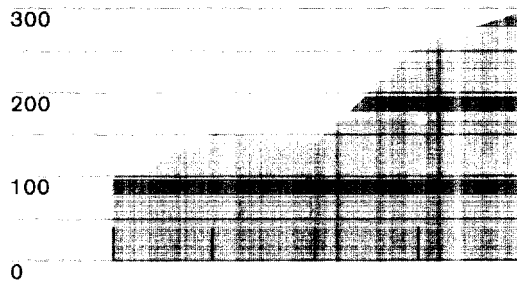
Clothing



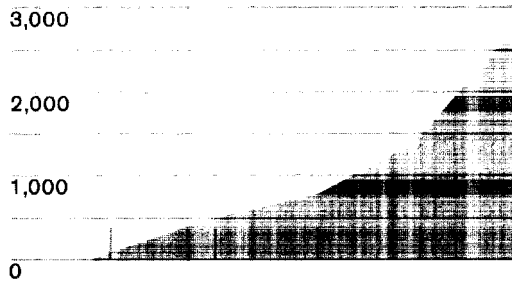
Textiles



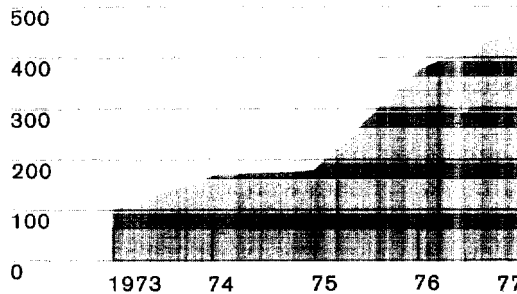
Electrical Machinery



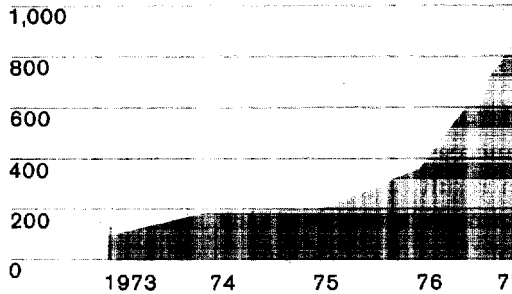
Transport Equipment



Footwear



Metal Manufactures



1. Note change in scales.

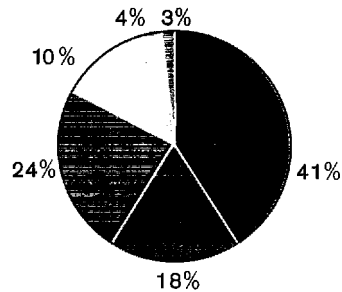
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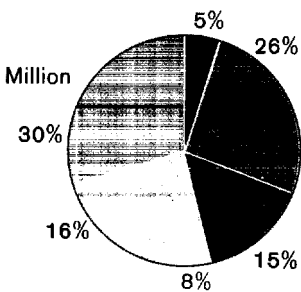
South Korea: Selected Exports by Destination, 1977

United States
Japan
European Community
Other Developed
OPEC
Non-OPEC LDCs

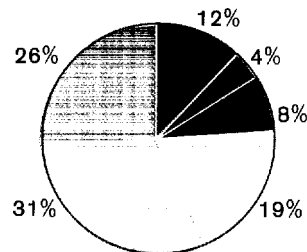
Clothing
US \$ 2,062 Million



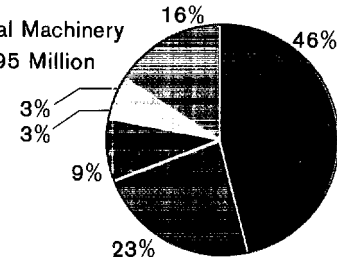
Textiles
US \$ 1,082 Million



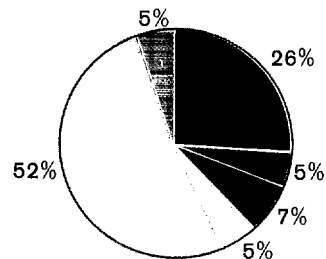
Transport Equipment
US \$ 694 Million



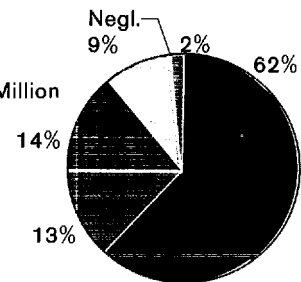
Electrical Machinery
US \$ 695 Million



Metal Manufactures
US \$ 569 Million



Footwear
US \$ 488 Million



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United States

Exports of manufactured goods to the United States totaled \$3 billion last year, eight times the amount sold in 1970. As a result, South Korea has almost 4 percent of US manufactured goods imports; in the case of clothing, footwear, and wood products, the share reaches 20 percent. Other fast-growing product lines are rubber goods, iron and steel parts, and nonelectrical machinery. In many cases, South Korea's sales have come at the expense of Japanese suppliers. In clothing, for example, the South Korean share of the US import market has increased 8 percentage points since 1970, while Japan's share has dropped 16 points. Sales of clothing and footwear would have been even higher if South Korea had not bumped against US quantitative restrictions.

Japan

Exports to Japan totaled \$2.1 billion in 1977, compared with \$230 million in 1970, with most of the gain representing manufactured goods. Indeed, South Korea is now the second largest exporter of manufactured goods to Japan after the United States and the only LDC to make substantial market inroads. Led by sales of men's and boys' shirts and pullover sweaters, for example, South Korea has captured a 43-percent share of Japanese clothing imports. Seoul boosted its shoe exports to Japan by 53 percent last year and now holds a 47-percent share of the small but growing Japanese footwear import market. Among other items exported to Japan, market shares have been increased for chemicals, paper products, iron and steel, metal products, and nonelectrical and electrical machinery.

Western Europe

Sales to Western Europe stood at \$1.8 billion in 1977, compared with \$75 million in 1970. Most of the sales growth is occurring in the West German, British, and Dutch markets. South Korea now accounts for 10 percent of the West German and British import market for clothes and a large share of the market for footwear, televisions, and radios, as well as other consumer electronic products. One result of the sales drive has been a strong protectionist reaction, especially in the United Kingdom and the Scandinavian countries, which already face high unemployment in consumer goods industries. Formal and informal import restrictions have gone a long way toward limiting South Korean sales in France and Italy where annual sales in 1977 were less than \$200 million in each case.

Less Developed Countries

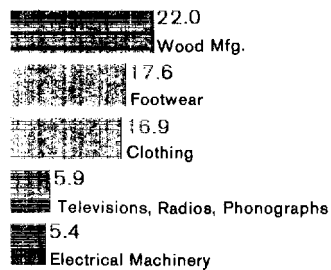
Exports of manufactured products to Third World markets are advancing most rapidly of all, reaching \$2.2 billion in 1977 and probably close to \$3 billion this year.

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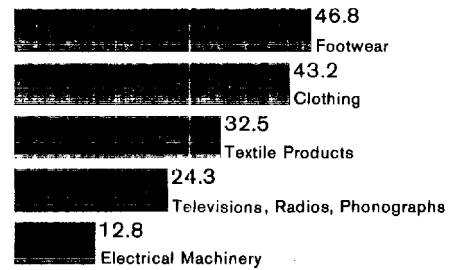
South Korea: Major Commodity Market Penetration, 1977

Share of Import Market (Percent)

United States



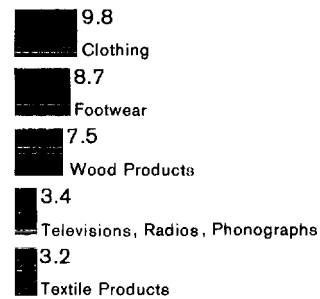
Japan



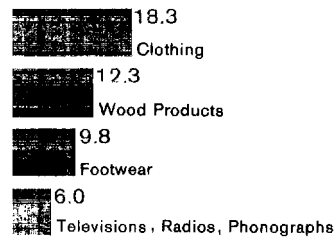
West Germany¹



United Kingdom¹



Canada



Netherlands¹



1. Excluding intra-EC trade.

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Major gains have been made in the oil-rich Middle East, where South Korea is doing better than almost any other exporting country in terms of sales growth. Backed by almost \$10 billion in construction contracts won by South Korean firms in the past three years, sales of cement and iron and steel products to OPEC countries are increasing particularly fast. Outside the Middle East, other Asian countries are South Korea's leading Third World customers because of large shipments of intermediate products to Hong Kong and, to a lesser extent, Taiwan. South Korea is also emerging as a major supplier of manufactured goods to Latin America and Africa, with combined sales last year reaching \$450 million.

Competitive Factors

South Korea's export success reflects the strong international competitiveness of its manufactured products. Despite a 16-percent annual rate of inflation in wholesale prices since 1970, average dollar export prices have risen only 9 percent, about the average for other major LDC exporters, because of government financial incentives to export industries and remarkable productivity gains in the manufacturing sector. Labor productivity, which has benefited from the increasing scale of operations and technological advances, has risen 10 percent annually since 1970, faster than in any other major LDC. A critical element in these gains has been the high discipline and work ethic of the South Korean labor force. Nominal wages, although roughly on a par with East Asian LDC competitors, are only one-sixth the Japanese level; productivity levels in South Korea are generally lower than in Japan, but in some key sectors (notably shipbuilding and steel) the levels are comparable.

Part of the South Korean success comes from piggybacking on the US and Japanese distribution systems. Sales to the United States of consumer electronics, for example, go principally to large retail chain organizations such as Sears Roebuck and Montgomery Ward. A major share of exports to Japan are being handled by Japanese trading companies or are coming from factories in which Japanese firms have a large equity. In the West European market the reputation of South Korean goods is being enhanced by heavy advertising campaigns, which draw attention to product durability and style. A major publicity campaign is now being waged to support South Korean attempts to enter the Benelux auto market with the 100-percent Korean-made Pony.

Formation of a dozen general trading companies since 1975 is adding muscle to the overseas marketing efforts. Patterned after the giant Japanese trading firms, which once handled 75 percent of South Korean third country exports, the trading companies marketed exports worth 3.5 billion last year; the amount should reach \$5 billion 1978. In addition to marketing goods abroad, the trading companies are setting up their own international distribution systems; one of the requirements imposed on the trading

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companies by the government is to maintain a certain number of offices overseas. In exchange, they enjoy preferred status in receiving government support.

Government Policy

The emphasis placed on export growth by the South Korean Government is unmatched anywhere in the world. Export targets, set by the Ministry of Commerce and Industry, are established on a commodity and country basis and monitored on a monthly schedule. The Ministry itself maintains an "export situation room" beside the office of the Minister to assess commodity, as well as country, export patterns and to evaluate shortfalls. At the company level, export targets and accomplishments are ranked with an eye toward rewarding overachievers; the top-ranked firms are awarded the National Medal of Honor presented by President Pak each November 30th, annual Export Day. Aside from this system of rewards, the government exerts enormous influence over the structure of industry through its investment allocation program.

Complementing this approach is a system of fiscal and monetary incentives worth approximately \$200 million to Korean exporters in 1977. Of this total, preferential interest rates account for \$190 million, with exporters now paying 9 percent rather than the commercial rate of 19 percent. Tax subsidies totaled roughly \$5 million in 1977, a marked drop from the 1970 level of \$25 million on a much smaller export base. Several other indirect export subsidies, such as tariff rebates on imported raw materials and reduced rates for electricity and transportation, have been eliminated or cut in recent years.

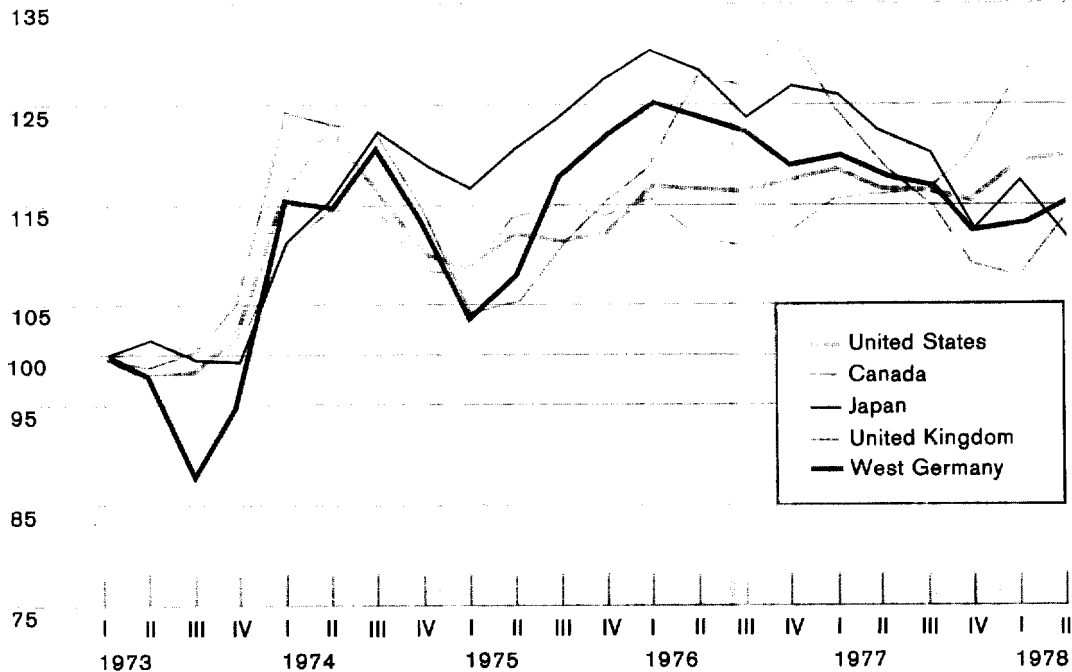
Since first quarter 1976, the South Korean won, which is pegged to the US dollar, has been permitted to depreciate 15 percent against the yen. This, of course, has further enforced the South Korean edge in the Japanese home market as well as in third-country markets where the two countries are competing head to head.

Their enormous competitive edge along with their versatility has enabled South Korean firms to minimize the impact of foreign trade restrictions on their export performance. In many instances, imposition of quotas on specific items has merely accelerated the product upgrading process. Since the imposition of quotas on shoe shipments to the US market, for example, the South Koreans have shifted to selling better quality lines with substantially higher unit values. Moreover, despite the Korean export success story, many firms have continued to receive GSP treatment in developed country markets. In 1976 some \$1.3 billion worth of exports of manufactured goods benefited from GSP, almost one-fifth of the total benefit accruing to LDCs.

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South Korea: Price-Adjusted Bilateral Exchange Rates

Index: 1973 I=100



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Looking Ahead

South Korean exports of manufactured goods almost certainly will continue to grow faster than the world average well into the 1980s. Seoul's export target for the next several years—15 to 16 percent real growth per annum—appears within reach. Manufactures will account for almost all of the increase. With the expansion will come substantial changes in composition. The major change will be the shift away from labor-intensive consumer products in favor of capital equipment.

The government will foster this structural shift by allocating two-thirds of industrial investment funds to heavy and chemical industries over the next several years. Industrial machinery, ships, autos, and electronics are expected to register the fastest export growth under the plan. Led by the sale of the Pony, auto sales are targeted to reach 100,000 units by 1981. Machinery exports will focus on transformers,

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milling machines, textile machinery, forklift trucks, and electric motors. Greatest emphasis for electronics will be on calculators, color televisions, integrated circuits, telephone switching gear, and minicomputers.

The shift away from labor-intensive consumer goods is in response to protectionist pressure against Korean goods. Korean sales of producer goods are likely to prove less troublesome in most developed country markets. Market inroads will continue to come largely at the expense of Japan, especially in the US market. For some products, such as watches, the big losers will be specialized producers like the Swiss. Third World markets will grow in importance, particularly for sales of whole plants. Seoul is already gearing up its Export-Import Bank to finance large-scale deliveries to the Asian, Middle Eastern, and Latin American markets.

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CHINA: RECORD GRAIN PURCHASES DESPITE GOOD CROPS

Despite excellent early crops and a favorable outlook for the remaining harvest, China continues to order foreign grain at record levels, with the United States the main beneficiary. We estimate at least 10 million tons will be imported in the market year beginning 1 July 1978, to (a) bolster consumption, especially in large Northern urban centers; (b) rebuild stocks, which were probably drawn down considerably in the last two years; and (c) possibly reduce the burden of state procurement on rural areas adjacent to large cities. Because of the strong position of the United States in the international grain market and a presumed reassessment by the Chinese of their market position, Peking no longer appears to consider the United States merely its residual grain supplier. It is unlikely, however, that this month's purchase of 1 million tons of US corn was intended as a political signal, as other potential suppliers could not have met the Chinese delivery schedule.

Fine 1978 Harvest

China's grain harvest in 1978 will increase substantially for the first time since 1975. The combined output of summer grain (up 7 million tons) and early rice (up 3 million tons) has put the Chinese well ahead of last year's early harvest. While it is still too early to predict the size of the fall harvest, an increase of only 2.3 million tons would yield a 4.3-percent increase for the year as a whole, the average annual rate necessary to reach the extremely ambitious 1985 target of 400 million tons.

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China: Grain Harvest

	Million Tons				
	1974	1975	1976	1977	1978
Total	275	284	285	286	NA
Early harvest	NA	NA	100	96	106
Late harvest	NA	NA	185	190	NA

Sizable Grain Imports

We expect China's grain imports in the current market year to exceed last year's 8.6 million tons by at least 17 percent. China has by now purchased 8 million tons of grain for delivery in 1978/79, and we expect additional purchases of 2 million to 3 million tons. *Canada* has sold 3 million tons of wheat for September 1978–August 1979 delivery and is unlikely to schedule additional amounts for this period. China and *Australia* are scheduled to meet this month to discuss grain transactions for calendar 1979. A sale of about 1.5 million tons of Australian wheat for delivery in first half 1979 is considered likely. *Argentina* and China have a long-term agreement that calls for 0.8 million to 1 million tons of grain annually for 1979-81. Argentina thus can be expected to sell about 500,000 tons for the remainder of MY 1978/79. So far, China has turned down offers from the *EC* and *India*, which also have exportable surpluses available. Aggressive marketing of EC grain may later result in some sales from that region. The *United States* had shipped 0.5 million tons of wheat thus far in MY 1978/79; anticipated shipments, including the most recent sale of slightly over 1 million tons of corn, total 4.2 million tons. Under existing contracts, the United States has 0.6 million tons of wheat committed for MY 1979/80.

China: Imports of Grain

	Market Year, ¹ 1977/78	Market Year, 1978/79 ²
Total	8.6	10.1
Canada	3.3	3.0
Australia	4.6	2.0
Argentina	0.5	0.7
United States	0.2	4.2
Other	0	0.2

¹ Market year ending in June.

² Projected.

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The US Role

Twice this year, China has purchased US wheat for delivery during 1979 before attempting to fulfill its needs from traditional suppliers. In early October, China ordered 1 million tons of US corn for delivery from October 1978 through February 1979. This has raised total purchases from the United States to 4 million tons of wheat and 1 million tons of corn since April. The Chinese have purchased US wheat far in advance despite a market outlook that does not call for precautionary buying. The recent sales indicate that China no longer considers the United States merely a residual supplier and has broadened its base of suppliers to lessen the possibility of a recurrence of the shipping delays caused by Canadian transportation problems and Australian overselling last year.

Factors Affecting US Trade

The recent sales of 3 million tons of US wheat after tilletia controverva kulhn (TCK) had been found in earlier shipments this year shows that the TCK smut problem has been successfully dealt with for the time being. Chinese concern regarding TCK appears to have diminished after a tour of US grain shipping facilities and inspection procedures. The method used in the latest sale to diminish the possibility of TCK being rekindled as a major issue in Sino-US grain trade is to obtain wheat from TCK-free areas whenever possible and use independent laboratory inspections. If TCK is present, the seller will notify Ceroilfood (the Chinese import company for cereals, oil, and foodstuffs) and assist in making preparations for the necessary treatment of the wheat. Major problems will be settled through negotiation.

Thus far, the Chinese have paid cash for US grain and have not shown interest in the use of deferred payments. Peking refused bank financing of a recent US grain purchase and has indicated that it does not intend to use credits for US grain purchases in the foreseeable future. The Chinese, nonetheless, may find the use of credit for grain purchases desirable or necessary as their foreign exchange situation tightens because of increased purchases of foreign plant and technology.

The Hua government in its drive to achieve the high growth targets of the 10-year plan (1976-85) must face up to choosing between additional foreign technology and additional foreign grain, with its willingness to go into debt a third factor in the equation. If Chinese policymakers decide that substantial grain imports should continue in order to support the minimum welfare goals of the government, the United States should retain a substantial share of China's grain imports.

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12 October 1978

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EUROCURRENCY MARKET: PIVOTAL ROLE OF OFFSHORE BANKING CENTERS *

Offshore banking centers located in the LDCs are becoming increasingly important as conduits of international capital. They currently account for at least 21 percent (about \$150 billion) of the Eurocurrency market, compared with 15 percent in 1974. This growth has been stimulated by their advantages as tax havens and as minimally regulated banking centers. Additional favorable factors include time zone differences and proximity to growing market areas. As a result, countries as diverse as The Bahamas, Bahrain, Hong Kong, Panama, and Singapore have developed flourishing offshore banking centers.

Characteristics of Offshore Banking

International banks in offshore banking centers are mainly branches or subsidiaries of American, British, and European banks. Like Eurobanks in the traditional banking centers their chief activity is the acceptance of deposits of Eurocurrencies (foreign currencies, mainly dollars) from abroad and the lending of these funds abroad to both bank and nonbank customers. A substantial portion of the deposits are received from parent banks or other foreign branches. Tax considerations make these transfers attractive since loans can be booked to offshore banks in low tax areas while the actual loan transactions are handled elsewhere. Other deposits are received from foreign central banks, multinational corporations, and private individuals.

Growth of Offshore Banking**

Offshore banking has shown spectacular growth in recent years. For example, from December 1974 to May 1978 the foreign liabilities of branches of US banks in The Bahamas and the Cayman Islands rose more than 150 percent, to \$82 billion, while similar liabilities of US bank branches in the United Kingdom, the premier Eurocurrency center, were growing by only 28 percent, to \$90 billion. Between the end of 1974 and mid-February 1978, foreign currency claims by banks and other Eurocurrency institutions in the United Kingdom on banks in The Bahamas rose by 71 percent, on banks in Singapore and Hong Kong by 100 percent each, and on banks in the Cayman Islands by 200 percent. At the same time, foreign currency claims on all foreign banks by these UK institutions were growing by 62 percent. The liabilities of Singapore's offshore banking units leaped from \$30 million in 1968 to \$23 billion in mid-1978.

* This article surveys international *offshore banking centers*, that is, areas other than the traditional industrial country centers. European tax havens like Monaco and Liechtenstein are not covered.

** Data on the foreign assets or liabilities of offshore banks include substantial double counting because of interbank lending. Changes in these data are indicative, however, of growth in Eurocurrency deposit and lending activity.

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Liabilities of US Bank Branches in The
Bahamas and Cayman Islands ¹

	Billion US \$				
	1974	1975	1976	1977	1978 ²
Total	31.7	45.2	66.7	79.1	81.8
To United States	4.8	11.1	22.7	32.1	37.1
Parent bank	2.6	7.6	16.1	20.9	23.1
Other	2.2	3.5	6.6	11.2	14.0
To other countries	26.1	32.9	42.8	45.2	43.4
Other branches of parent bank	7.7	10.6	13.8	12.8	11.3
Other banks	14.0	16.8	21.7	24.7	21.1
Official institutions	2.4	3.3	3.5	3.0	4.4
Nonbank foreigners	2.0	2.2	3.8	4.7	6.6
Other liabilities	0.8	1.1	1.1	1.6	1.3

¹ Yearend data except for 1978.² Preliminary May 1978 data, which include a smaller number of branches than in previous years because of a change in reporting requirements.Foreign Currency Claims of UK Banks and Other UK Eurocurrency Institutions
on Banks Abroad ¹

	Billion US \$				
	1974	1975	1976	1977	1978 ²
All banks abroad	72	95	108	106	117
Of which, in:					
The Bahamas	7	12	12	10	12
Cayman Islands	1	3	3	3	3
Hong Kong	2	3	3	3	4
Panama	1	2	1	1	1
Singapore	3	4	6	5	6

¹ Yearend data except for 1978.² 15 February 1978.

The relative share of offshore banking units in Eurocurrency activity thus has been rising sharply. For example, the share of The Bahamas and Cayman branches of US banks in the foreign liabilities of all US branches abroad rose from 21 percent to 32 percent between December 1974 and May 1978, while the share of US branches in the United Kingdom was falling from 46 percent to 35 percent.

Profile of Offshore Banking Centers

The Bahamas, the largest offshore Eurocurrency center with more than \$75 billion in external banking assets, is second only to London in importance in the

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Selected Offshore Banking Units

	Affiliation
The Bahamas	
Chase Manhattan Trust Corporation, Ltd.	United States
Credit Suisse (The Bahamas) Ltd.	Switzerland
Handelsbank NW (Overseas) Ltd.	Switzerland
Royal Bank of Canada International, Ltd.	Canada
Swiss Bank Corporation (Overseas), Ltd.	Switzerland
Bahrain	
Bahrain Investment Company	Bahrain
Bank of Nova Scotia	Canada
Bank Saderat, Iran Offshore Banking Unit	Iran
Chase Manhattan Bank NA, Bahrain	United States
Gulf International Bank	Saudi Arabia, Kuwait, Iraq, Oman, Qatar, Bahrain, and United Arab Emirates
Cayman Islands	
Richardson Securities of Canada	Canada
Royal Bank of Canada International, Ltd.	Canada
WFC Banking Corporation	United States
Hong Kong	
Amex Bancom, Ltd.	United States
Chase Manhattan Asia, Ltd.	United States
Deak and Company (Far East), Ltd.	United States
Morgan Guaranty Trust Company of New York	United States
Schroders and Chartered, Ltd.	United Kingdom
Sumitomo and East Asia, Ltd.	Japan
Yamaichi International (Hong Kong), Ltd.	Japan
Singapore	
Credit Suisse	Switzerland
Grindlay Brandts, Ltd.	United Kingdom
Lloyds Bank International, Ltd.	United Kingdom
Morgan Guaranty and Partners, Ltd.	United States
Singapore-Japan Merchant Bank, Ltd.	Japan
Toronto Dominion Bank	Canada

Eurocurrency market. One of the earliest tax havens, The Bahamas has about 273 banking institutions, with 79 of the 97 Eurocurrency units being US bank branches or subsidiaries. Banking activity is concentrated in Nassau. The Bahamas is principally a booking center but has the expertise to conduct all phases of international lending. There are no taxes on offshore banking profits.

Singapore is the chief center for the Asian dollar sector of the Eurocurrency market and functions mainly as a depository and loan booking center. There are 78

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offshore banking units, with a total of \$23 billion in banking assets. Singapore is a key link in the worldwide 24-hour foreign exchange trading network since the Singapore market is open when the London market is closed. The government imposes a concessional 10-percent tax on offshore banking profits with liberal exemptions of certain offshore earnings.

Hong Kong is next in importance to Singapore in terms of Asian dollar deposits—about \$13 billion—but leads Singapore in the volume of syndicated Asian dollar loan transactions. Hong Kong has more than 80 licensed banks and more than 170 other deposit-taking institutions. Unlike Singapore, no legal distinction exists between domestic and offshore units, and a number of these financial institutions conduct offshore banking business. A 15-percent tax on offshore banking profits was recently imposed and may inhibit Hong Kong's offshore banking growth while benefiting offshore banking centers elsewhere.

Bahrain is at present the fastest growing offshore banking center. Its offshore banking assets grew 150 percent in 1977, to \$16 billion, and another 25 percent in first half 1978, to \$20 billion. Principally a depository like Singapore, Bahrain is expected to be a more important offshore banking center in the future because of shifts in offshore loan bookings from higher tax areas like Hong Kong to tax-free Bahrain and the country's potential for attracting Arab deposits. Persian Gulf currencies like the Saudi riyal and the Kuwaiti dinar are already significant elements in Bahrain's offshore banking business, representing 24 percent of offshore banking assets, compared with 73 percent for the US dollar. About 35 offshore banking units are located in Bahrain.

Panama is the center of the Latin American segment of the Eurodollar market. The Eurodollar deposit base is less than \$10 billion, however, and has been growing slowly in recent years, even though no taxes are levied on offshore banking profits.

Other offshore banking centers include *Bermuda*, *Lebanon* (Beirut), the *Philippines* (Manila), the *Netherlands Antilles* (Curacao), and *New Hebrides*. Of these, the Philippines is the newest, starting in 1976; about 16 offshore banking units have been licensed to date. Beirut's significance has been sharply reduced because of political turmoil.

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Notes

China Steps Up Rail Construction

To meet sharply increased traffic demands, Peking is expediting construction of 18 trunk and branch railroad lines. Although the Chinese have completed an average of over 1,600 kilometers (km) of new lines annually in the 1970s (the world's best achievement) and have doubled the volume of rail freight carried, much more is required to meet the requirements of the 10-year plan (1976-85).

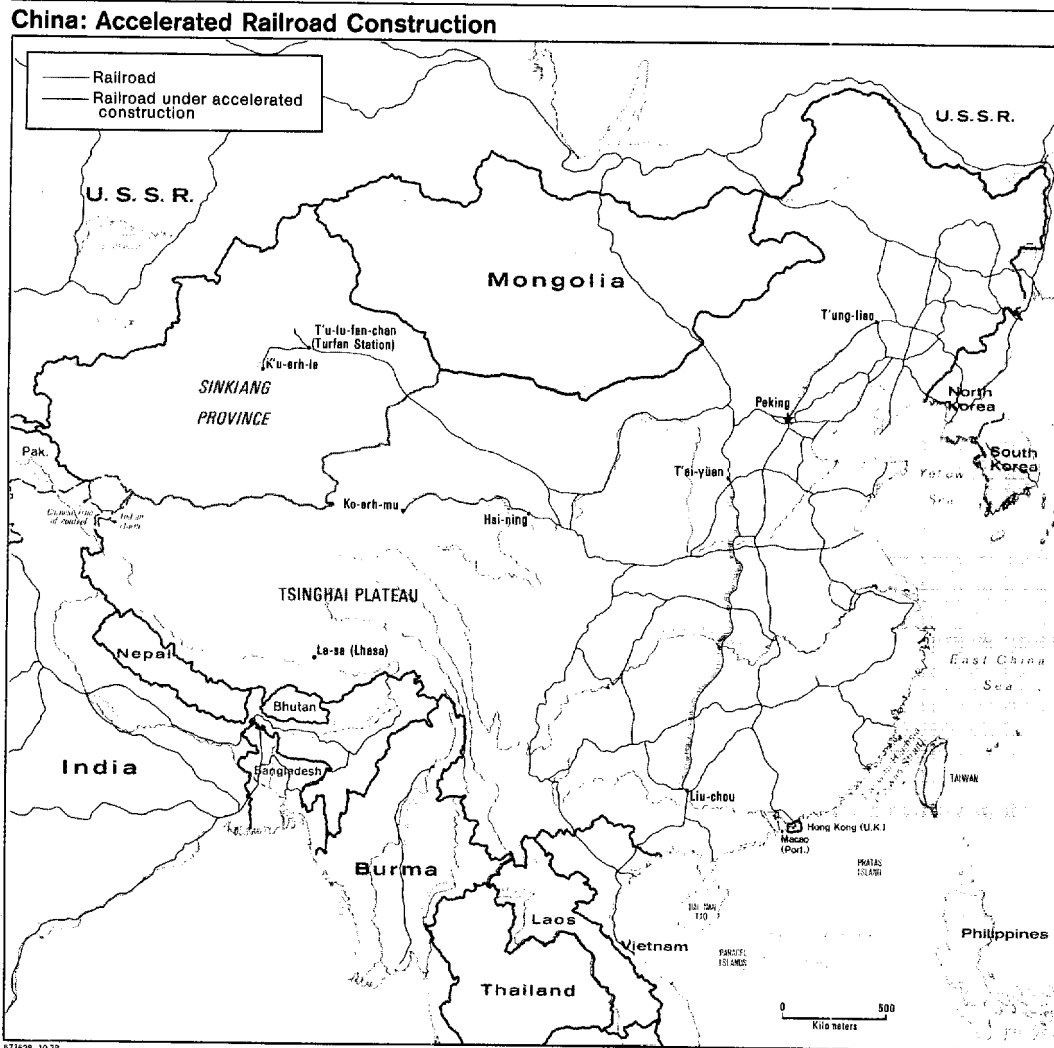
The key lines scheduled for accelerated construction are the first one-third of the 2,200-km railroad to Lhasa across the Tsinghai-Tibet plateau; a 500-km railroad extending southwest from Turfan in remote Sinkiang; a 900-km line between Peking and the industrial northeast; and a 1,700-km north-south artery deep in the interior, running from T'ai-yuan in the north to Liu-chou in the south. These lines will speed industrial and agricultural progress, open up new mineral deposits, and link established industrial bases with developing interior areas. Along with additional trackage, China needs to update its railroad technology and has held discussions with a half dozen potential suppliers of modern rolling stock and communications and control equipment. Chinese delegations recently visited French, Japanese, and Swedish rail facilities and Peking is currently hosting a British rail group.

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Nicaragua Faces Financial Squeeze

Nicaragua will have trouble obtaining the foreign loans urgently needed to cover the widening current account deficit and to help meet sizable foreign debt payments. Most commercial banks have been unwilling to provide funds until the International Monetary Fund (IMF) grants the standby loan requested by Managua. Even if the IMF finally okays a standby, foreign banks will still be reluctant to provide credits, given the country's unsettled situation.

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Without outside financial help the financial situation will rapidly worsen. Nicaragua especially needs the export proceeds from the expected bumper cotton and coffee crops to boost its trade balance, because recent capital flight—more than \$80 million during August and September—has pushed net reserves into the red. The domestic liquidity crunch, however, is restricting the extension of loans to farmers required to aid them in harvesting and marketing this year's crops, as well as hampering recovery from the effects of the recent business shutdown and armed insurrection.

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12 October 1978

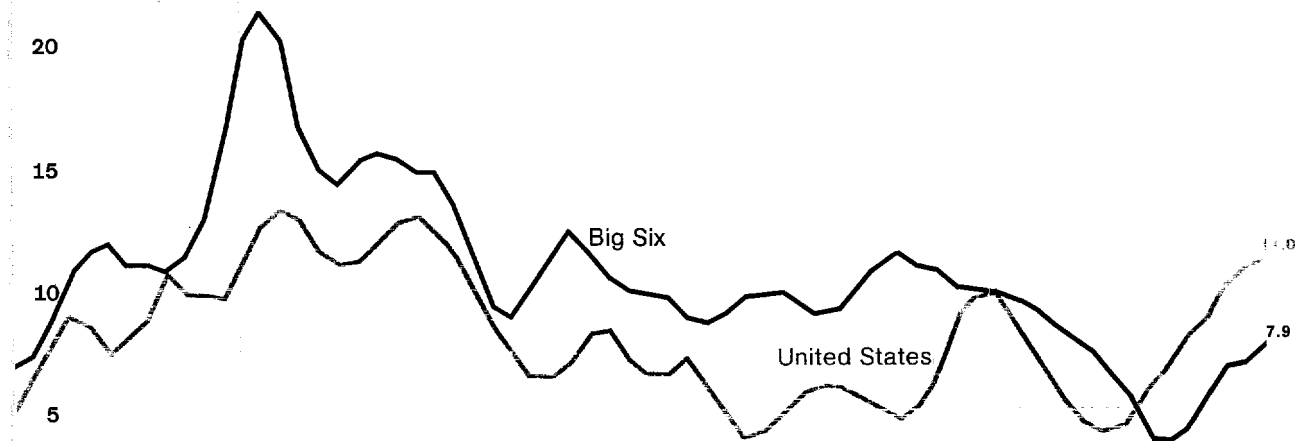
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Consumer Price Inflation

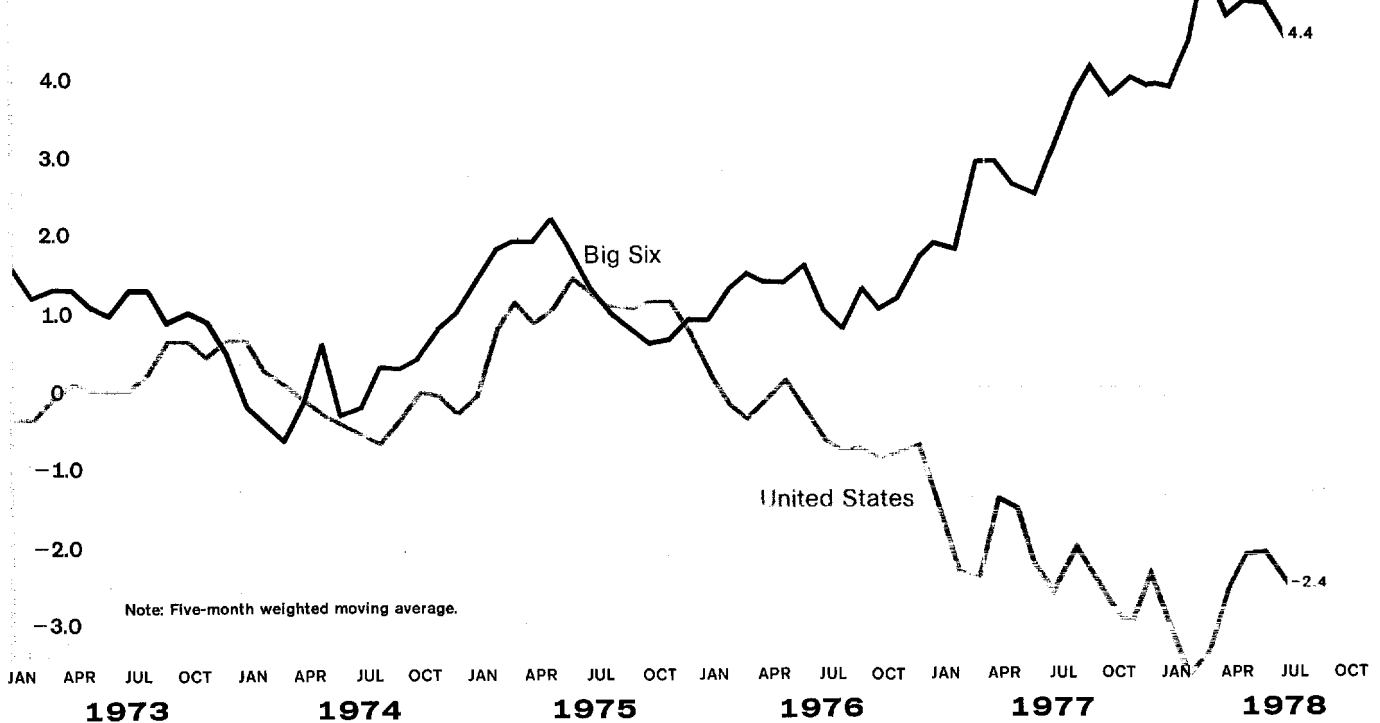
Percent, seasonally adjusted, annual rate



Note: Three-month average compared with previous three months.

Trade Balance

Billion US \$, f.o.b., seasonally adjusted



Note: Five-month weighted moving average.

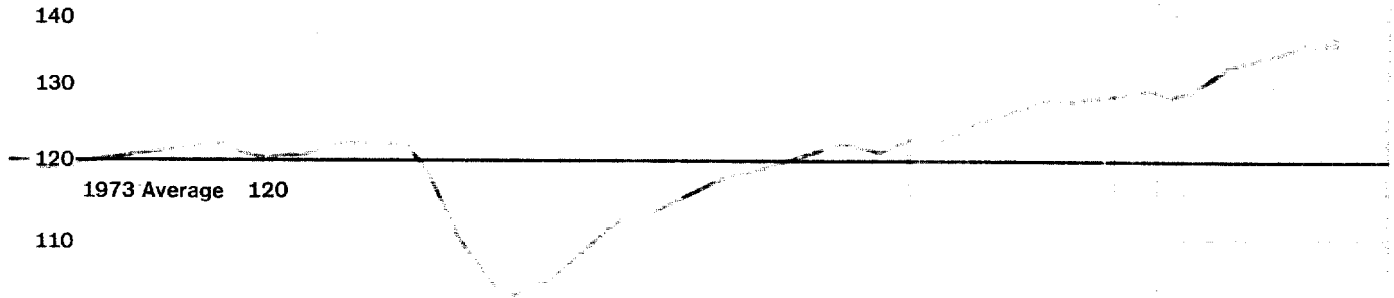
	LATEST MONTH	Percent Change from Previous Month	AVERAGE ANNUAL GROWTH RATE SINCE 1970			Unemployment Rate Big Five United States	LATEST MONTH	MILLION US \$	CUMULATIVE (MILLION US \$)		
			1970	1 Year Earlier	3 Months Earlier ²				1978	1977	Change
Industrial Production							JUL 78	4.5	4.4	4.4	
	Big Six						JUL 78	6.2	6.9	6.0	
Consumer Prices											
Big Six	JUN 78	0.7	3.0	2.9	3.8						
United States	JUN 78	0.7	3.8	5.2	13.1						
Trade Balance											
Big Six	JUL 78	0.8	9.2	6.6	7.9		JUL 78	3,095	31,592	16,184	15,407
United States	JUL 78	0.7	6.8	7.7	11.0		JUL 78	-2,987	-19,355	-13,623	-5,732

²Average for latest 3 months compared with average for previous 3 months, seasonally adjusted at annual rate.

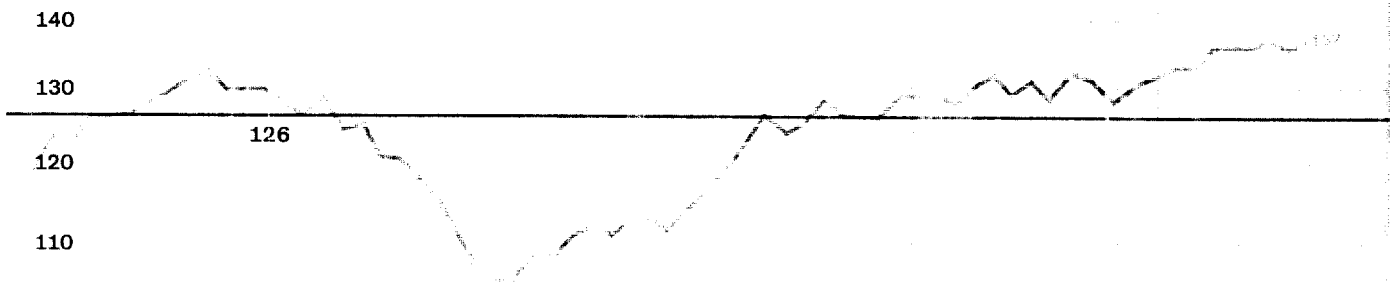
INDUSTRIAL PRODUCTION INDEX: 1970=100, seasonally adjusted

United States

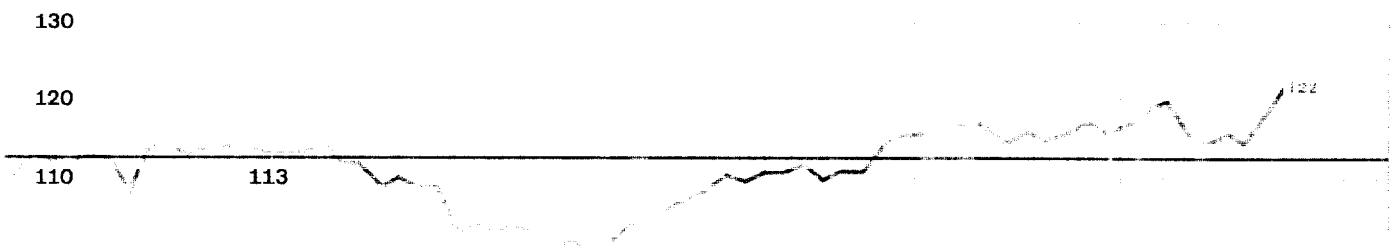
Semilogarithmic Scale



Japan



West Germany



France

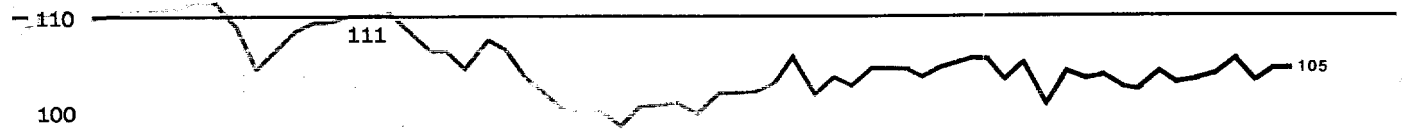


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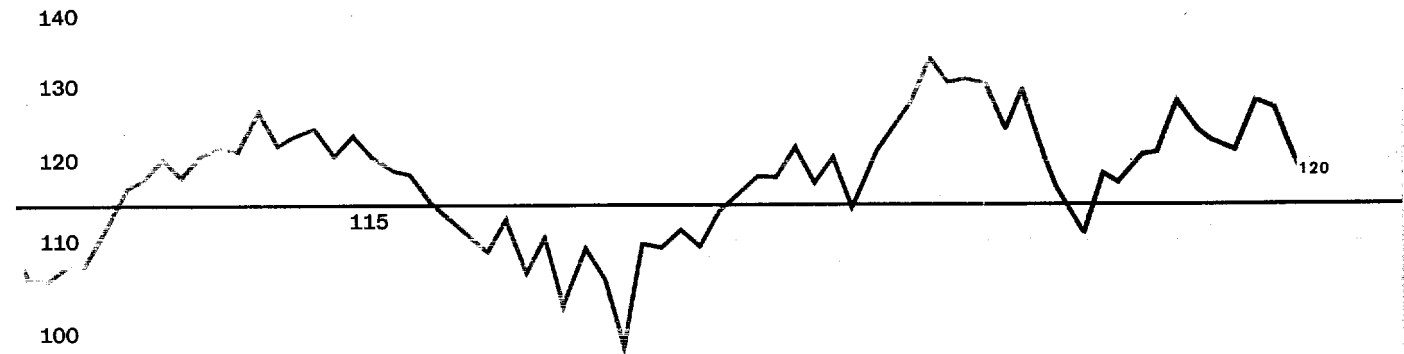
1973 1974 1975 1976 1977 1978

United Kingdom

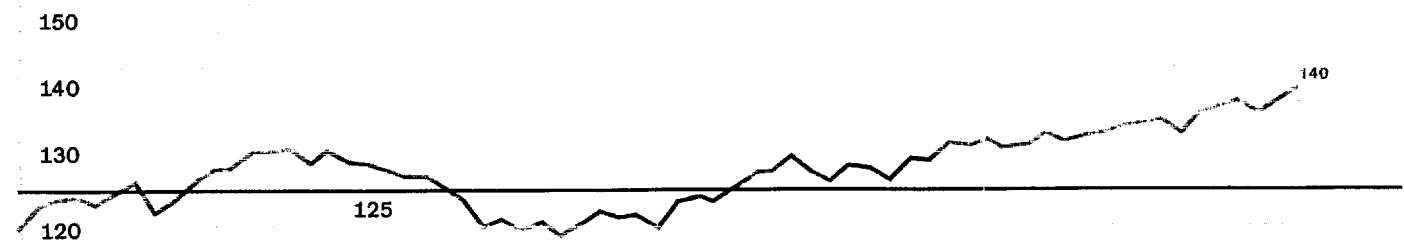
Semilogarithmic Scale



Italy



Canada



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1973 1974 1975 1976 1977 1978

	LATEST MONTH	Percent Change from Previous Month	AVERAGE ANNUAL GROWTH RATE SINCE				LATEST MONTH	Percent Change from Previous Month	AVERAGE ANNUAL GROWTH RATE SINCE		
			1970	1 Year Earlier	3 Months Earlier ¹				1970	1 Year Earlier	3 Months Earlier ¹
United States	AUG 78	0.5	3.9	6.2	9.1	United Kingdom	JUL 78	0.1	0.6	0.5	-0.3
Japan	AUG 78	0.8	4.0	5.5	1.3	Italy	JUL 78	-6.2	2.3	3.2	8.0
West Germany	JUL 78	3.4	2.5	6.1	9.5	Canada	JUL 78	1.1	4.2	5.4	3.0
France	JUN 78	-0.8	2.9	-1.6	5.4						

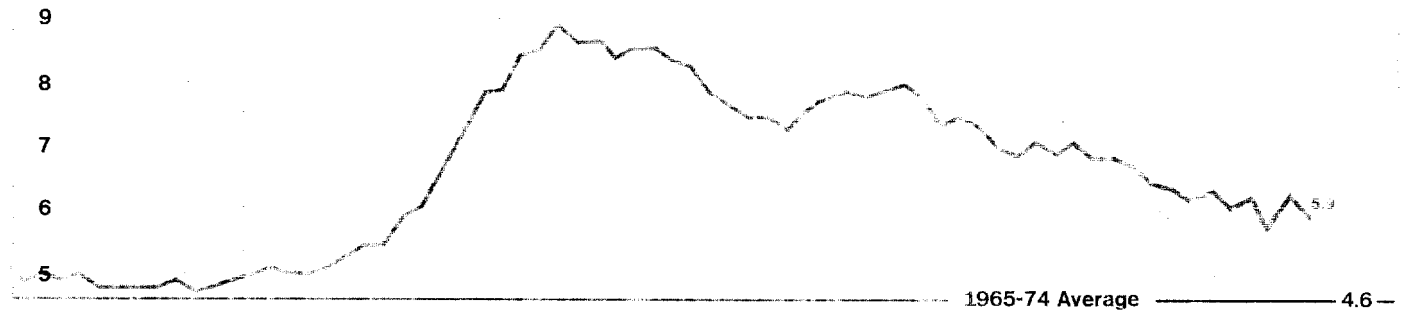
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¹Average for latest 3 months compared with average for previous 3 months.

UNEMPLOYMENT RATE

PERCENT

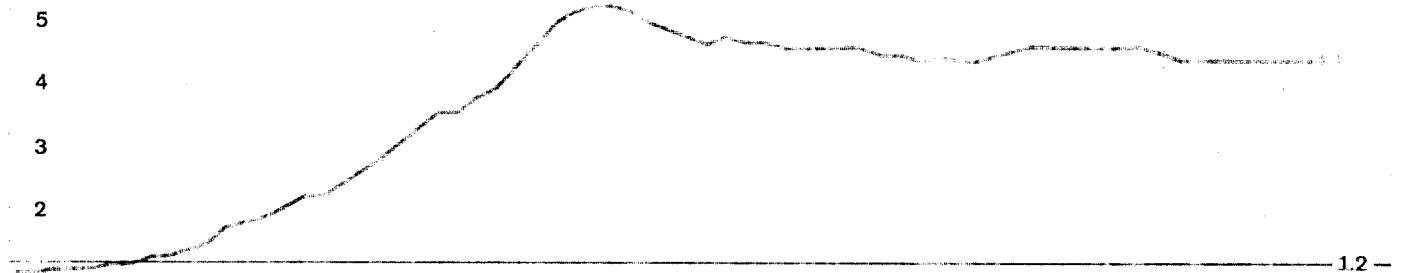
United States



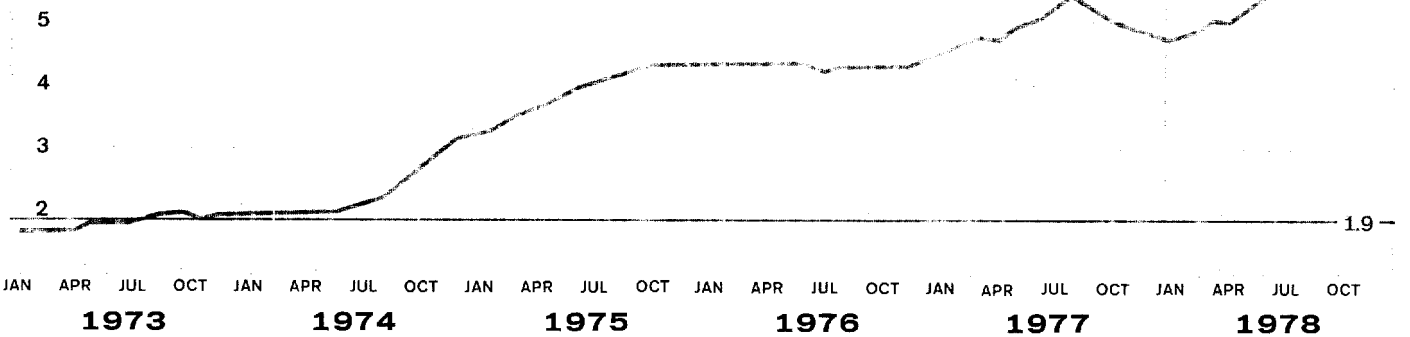
Japan

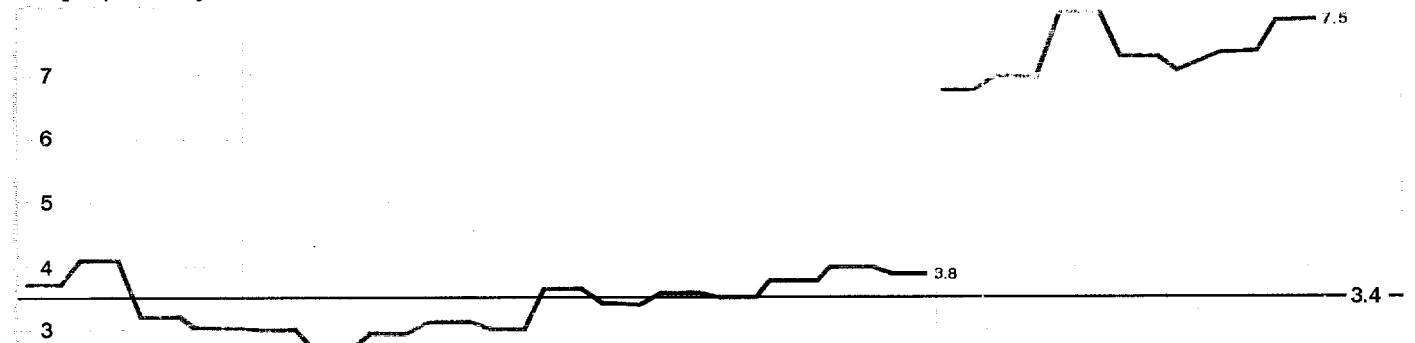


West Germany



France



United Kingdom**Italy (quarterly)**

A labor force survey based on new definitions of economic activity sharply raised the official estimate of Italian unemployment in first quarter 1977. Data for earlier periods thus are not comparable. Italian data are not seasonally adjusted.

Canada

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1973 1974 1975 1976 1977 1978

THOUSANDS OF PERSONS UNEMPLOYED

		LATEST MONTH	1 Year Earlier	3 Months Earlier		LATEST MONTH	1 Year Earlier	3 Months Earlier	
United States	AUG 78	5,968	6,821	6,149	United Kingdom	SEP 78	1,378	1,435	1,365
Japan	JUL 78	1,260	1,200	1,220	Italy	78 III	1,658	1,692	1,455
West Germany	AUG 78	997	1,044	997	Canada	AUG 78	941	681	949
France	AUG 78	1,277	1,174	1,132					

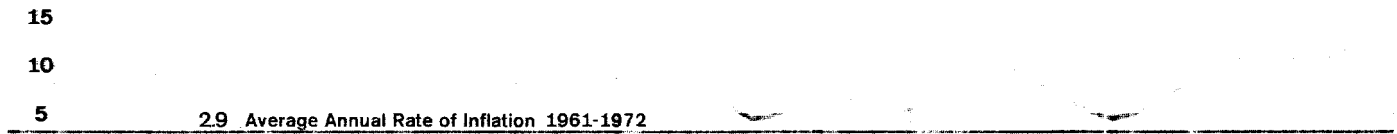
NOTE: Data are seasonally adjusted. Unemployment rates for France are estimated. The rates shown for Japan and Canada are roughly comparable to US rates. For 1975-78, the rates for France and the United Kingdom should be increased by 5 percent and 15 percent respectively, and those for West Germany decreased by 20 percent to be roughly comparable with US rates. Beginning in 1977, Italian rates should be decreased by 50 percent to be roughly comparable to US rates.

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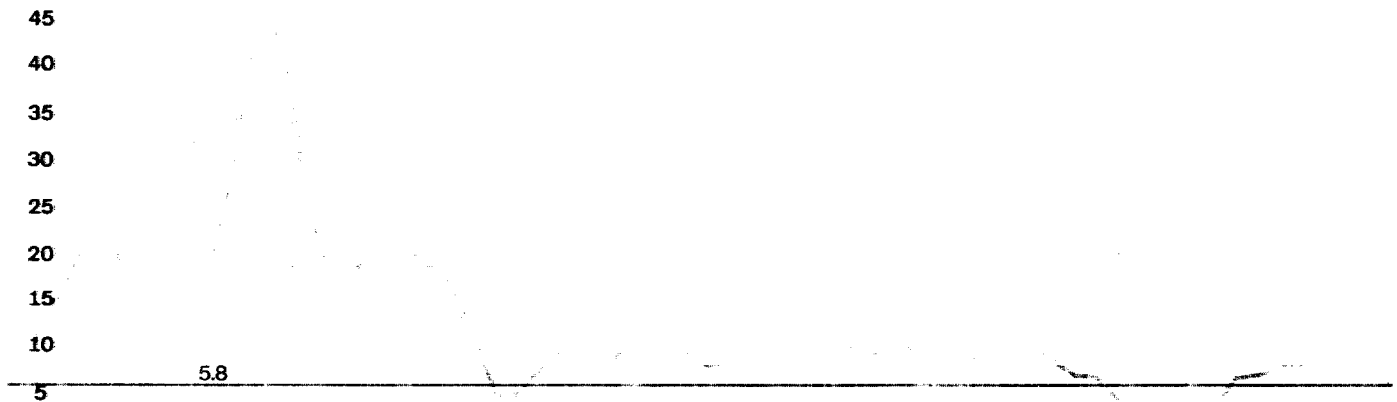
CONSUMER PRICE INFLATION

Percent, seasonally adjusted,
annual rate¹

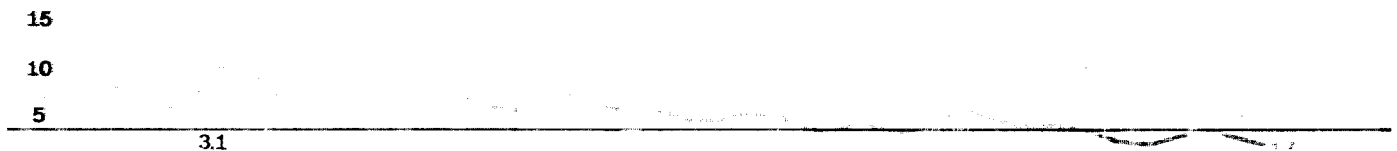
United States



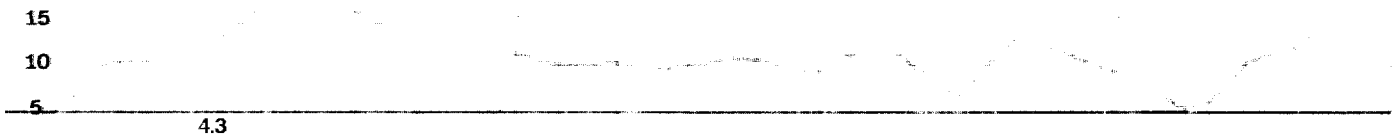
Japan



West Germany



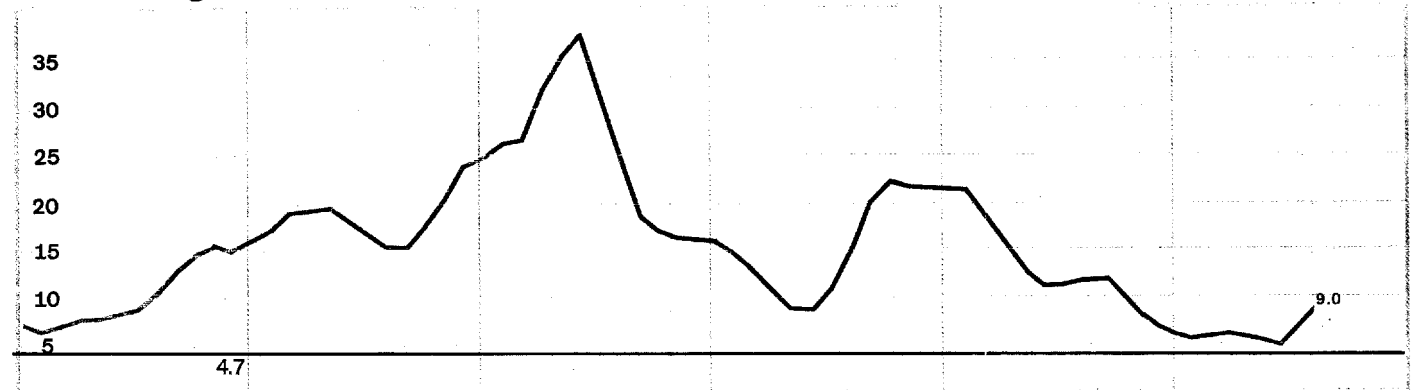
France



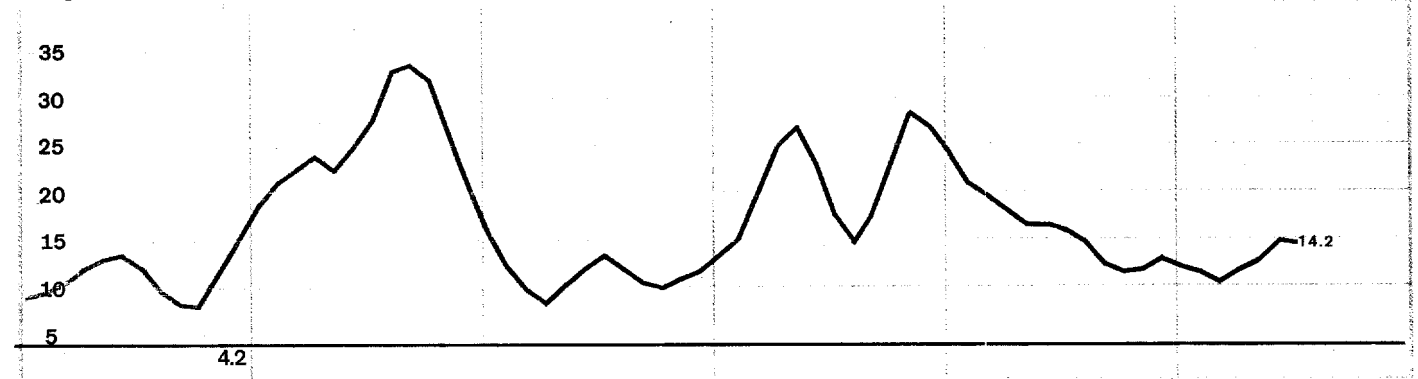
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1973 1974 1975 1976 1977 1978

¹Three-month average compared with previous three months.

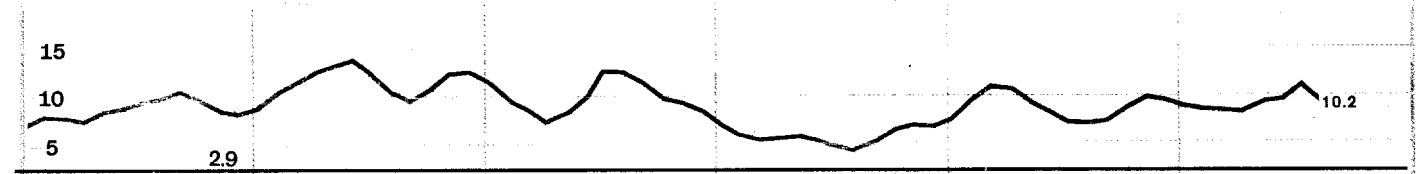
United Kingdom



Italy



Canada



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1973 1974 1975 1976 1977 1978

	LATEST MONTH	Percent Change from Previous Month	AVERAGE ANNUAL GROWTH RATE SINCE				LATEST MONTH	Percent Change from Previous Month	AVERAGE ANNUAL GROWTH RATE SINCE		
			1970	1 Year Earlier	3 Months Earlier ²				1970	1 Year Earlier	3 Months Earlier ²
United States	AUG 78	0.5	6.7	7.9	10.1	United Kingdom	AUG 78	1.4	13.2	8.0	9.0
Japan	JUL 78	0.7	9.8	4.1	6.8	Italy	AUG 78	0.6	13.1	11.9	14.2
West Germany	JUL 78	0.1	5.2	2.3	1.7	Canada	AUG 78	0	7.7	9.4	10.2
France	AUG 78	0.7	9.1	9.4	12.0						

² Average for latest 3 months compared with average for previous 3 months, seasonally adjusted at annual rate.

GNP ¹**Constant Market Prices**

	Latest Quarter	Percent Change from Previous Quarter	Average Annual Growth Rate Since		
			1970	1 Year Earlier	Previous Quarter
United States	78 II	1.8	3.2	4.0	7.4
Japan	78 I	2.4	5.5	5.7	10.0
West Germany	78 II	2.1	2.7	4.2	8.8
France	78 I	1.8	4.1	1.4	7.4
United Kingdom	77 IV	-0.5	1.6	-1.1	-1.9
Italy	78 I	2.0	2.8	-0.8	8.2
Canada	78 II	1.1	4.7	3.7	4.5

¹ Seasonally adjusted.**RETAIL SALES ¹****Constant Prices**

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since		
			1970	1 Year Earlier	3 Months Earlier ²
United States	Jul 78	-0.3	3.1	3.5	1.9
Japan	Apr 78	4.0	9.9	4.3	24.8
West Germany	Jun 78	1.6	2.6	3.3	-3.2
France	Jan 78	9.9	0	1.0	10.5
United Kingdom	Aug 78	0.1	1.5	6.5	12.3
Italy	May 78	12.1	3.5	3.5	12.1
Canada	Jul 78	-1.2	3.8	3.2	-1.6

¹ Seasonally adjusted.² Average for latest 3 months compared with average for previous 3 months.**FIXED INVESTMENT ¹****Nonresidential; constant prices**

	Latest Quarter	Percent Change from Previous Quarter	Average Annual Growth Rate Since		
			1970	1 Year Earlier	Previous Quarter
United States	78 II	3.6	3.0	7.4	15.1
Japan	78 I	0.9	1.1	-0.4	3.6
West Germany	78 II	-0.5	1.2	7.8	-2.0
France	77 IV	0.8	4.0	4.7	3.3
United Kingdom	78 I	1.3	1.6	9.7	5.2
Italy	78 I	2.3	1.1	-19.6	9.4
Canada	78 II	10.6	6.5	6.1	49.9

¹ Seasonally adjusted.**WAGES IN MANUFACTURING ¹**

	Latest Period	Percent Change from Previous Period	Average Annual Growth Rate Since		
			1970	1 Year Earlier	3 Months Earlier ²
United States	Jul 78	1.2	7.6	7.6	6.8
Japan	Apr 78	0.3	16.1	8.2	10.3
West Germany	78 I	0.9	8.9	4.3	3.9
France	77 IV	3.1	14.1	12.0	12.9
United Kingdom	Jun 78	0.1	16.3	20.5	83.5
Italy	Jun 78	0	20.1	15.5	13.8
Canada	Jul 78	1.0	10.7	6.7	4.7

¹ Hourly earnings (seasonally adjusted) for the United States, Japan, and Canada; hourly wage rates for others. West German and French data refer to the beginning of the quarter.² Average for latest 3 months compared with that for previous 3 months.**MONEY MARKET RATES**

				Percent Rate of Interest		
Representative rates		Latest Date		1 Year Earlier	3 Months Earlier	1 Month Earlier
United States	Commercial paper	Sep 27	8.52	6.22	7.78	7.93
Japan	Call money	Sep 29	4.25	5.00	4.25	4.63
West Germany	Interbank loans (3 months)	Sep 27	3.70	4.09	3.65	3.65
France	Call money	Sep 29	7.00	8.13	7.25	7.00
United Kingdom	Sterling interbank loans (3 months)	Sep 27	9.34	5.78	10.11	9.27
Canada	Finance paper	Sep 27	9.29	7.07	8.06	8.90
Eurodollars	Three-month deposits	Sep 27	9.41	6.78	8.63	8.61

EXPORT PRICES

US \$

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since		
			1970	1 Year Earlier	3 Months Earlier
United States	Jul 78	-0.4	9.6	9.5	15.7
Japan	Jul 78	1.2	11.7	27.0	39.1
West Germany	Jun 78	1.7	11.5	12.9	-4.0
France	Jun 78	2.2	11.5	13.6	7.8
United Kingdom	Aug 78	3.5	12.2	20.9	38.7
Italy	Apr 78	-0.6	10.9	9.6	6.7
Canada	Jun 78	-0.3	8.3	1.9	5.0

EXPORT PRICES

National Currency

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since		
			1970	1 Year Earlier	3 Months Earlier
United States	Jul 78	-0.4	9.6	9.5	15.7
Japan	Jul 78	-5.8	3.8	-4.3	-8.8
West Germany	Jun 78	0.7	3.9	-0.1	4.9
France	Jun 78	0.6	8.8	5.3	-2.8
United Kingdom	Aug 78	1.0	15.1	8.4	6.9
Italy	Apr 78	-0.6	15.4	5.7	-1.6
Canada	Jun 78	-0.3	9.2	7.7	2.2

IMPORT PRICES

National Currency

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since		
			1970	1 Year Earlier	3 Months Earlier
United States	Jul 78	0.6	12.6	7.3	2.9
Japan	Jul 78	-6.6	5.8	-20.9	-22.7
West Germany	Jun 78	-1.6	3.0	-5.9	-12.5
France	Jun 78	-0.6	9.1	0.2	-9.1
United Kingdom	Aug 78	-0.1	17.2	3.0	5.0
Italy	Apr 78	-0.7	18.9	4.7	-8.3
Canada	Jun 78	-0.2	9.5	11.7	13.9

OFFICIAL RESERVES

	Latest Month	Billion US \$			
		End of	Jun 1970	1 Year Earlier	3 Months Earlier
		Billion US \$			
United States	Jun 78	18.9	14.5	19.2	19.2
Japan	Aug 78	29.2	4.1	17.8	27.7
West Germany	Jul 78	41.1	8.8	35.1	41.3
France	Apr 78	10.6	4.4	10.0	10.2
United Kingdom	Jul 78	17.6	2.8	13.6	17.7
Italy	Aug 78	14.9	4.7	10.5	12.2
Canada	Aug 78	4.2	9.1	4.8	4.7

CURRENT ACCOUNT BALANCE ¹

	Latest Period	Cumulative (Million US \$)			
		Million US \$	1978	1977	Change
United States ²	78 I	-6,954	-6,954	-4,158	-2,796
Japan	Jul 78	2,050	10,879	4,630	6,249
West Germany	Jul 78	-868	2,831	1,406	1,425
France	78 I	-84	-84	-1,628	1,543
United Kingdom	78 I	-803	-803	-896	94
Italy	78 I	288	288	-1,025	1,313
Canada	78 II	-1,201	-2,381	-2,658	277

¹ Converted to US dollars at the current market rates of exchange.² Seasonally adjusted.**BASIC BALANCE ¹**

Current Account and Long-Term Capital Transactions

	Latest Period	Cumulative (Million US \$)			
		Million US \$	1978	1977	Change
United States		No longer published ²			
Japan	Jul 78	650	6,231	3,513	2,718
West Germany	Jul 78	-881	1,915	-2,363	4,278
France	78 I	-863	-863	-1,889	1,025
United Kingdom	78 I	-326	-326	543	-869
Italy	77 III	2,427	N.A.	N.A.	N.A.
Canada	78 II	883	327	-557	884

¹ Converted to US dollars at the current market rates of exchange.² As recommended by the Advisory Committee on the Presentation of Balance of Payments Statistics, the Department of Commerce no longer publishes a basic balance.**EXCHANGE RATES**

Spot Rate

As of 29 Sep 78

	US \$ Per Unit	Percent Change from			
		19 Mar 73	1 Year Earlier	3 Months Earlier	22 Sep 78
Japan (yen)	0.0053	38.44	41.02	7.48	-0.81
West Germany (Deutsche mark)	0.5151	44.89	19.88	6.01	0.62
France (franc)	0.2309	4.07	13.94	3.06	0.92
United Kingdom (pound sterling)	1.9715	-20.26	13.13	5.26	0.09
Italy (lira)	0.0012	-31.04	7.34	3.14	0.33
Canada (dollar)	0.8446	-15.82	-9.38	-5.06	-0.81

TRADE-WEIGHTED EXCHANGE RATES ¹

As of 29 Sep 78

	Percent Change from			
	19 Mar 73	1 Year Earlier	3 Months Earlier	22 Sep 78
United States	-2.80	-8.86	-1.65	0.30
Japan	41.88	36.48	6.51	-0.78
West Germany	32.04	5.02	1.37	0.24
France	-9.77	-1.53	-2.16	0.56
United Kingdom	-28.58	0.97	1.47	-0.19
Italy	-42.20	-6.85	-1.43	-0.08
Canada	-17.28	-12.99	-6.17	-0.81

¹ Weighting is based on each listed country's trade with 16 other industrialized countries to reflect the competitive impact of exchange rate variations among the major currencies.

Developed Countries: Direction of Trade ¹						Billion US \$
	Exports to (f.o.b.)					
	World	Big Seven	Other OECD	OPEC	Communist	Other
UNITED STATES						
1975	107.65	46.94	16.25	10.77	3.37	29.82
1976	115.01	51.30	17.68	12.57	3.64	29.44
1977	120.17	53.92	18.53	14.02	2.72	30.98
1978						
1st Qtr	30.94	13.65	4.60	3.76	1.00	7.93
Apr	12.06	5.40	1.68	1.38	0.42	3.17
JAPAN						
1975	55.73	16.56	6.07	8.42	5.16	15.87
1976	67.32	22.61	8.59	9.27	4.93	17.84
1977	81.11	28.02	9.73	12.03	5.32	26.01
1978						
1st Qtr	22.11	7.83	2.39	3.35	1.32	7.22
Apr	7.89	2.80	0.80	1.19	0.57	2.53
WEST GERMANY						
1975	91.70	28.33	36.44	6.78	8.81	11.05
1976	103.63	33.44	41.86	8.25	8.72	11.04
1977	119.28	39.01	48.00	10.78	8.59	12.90
1978						
1st Qtr	32.45	11.17	13.05	2.76	1.97	3.50
FRANCE						
1975	52.87	20.00	15.50	4.90	3.13	8.61
1976	57.05	22.49	16.15	5.08	3.23	8.75
1977	65.00	25.90	18.19	5.97	3.00	11.94
1978						
1st Qtr	18.49	7.66	5.07	1.57	0.66	3.53
Apr	6.74	2.82	1.90	0.56	0.28	1.18
UNITED KINGDOM						
1975	44.03	12.55	16.59	4.55	1.56	8.64
1976	46.12	14.03	17.53	5.13	1.39	7.92
1977	57.44	16.99	22.56	6.78	1.63	9.48
1978						
1st Qtr	16.86	5.09	6.27	2.03	0.55	2.92
Apr	5.75	1.73	2.19	0.74	0.18	0.91
ITALY						
1975	34.82	15.61	7.86	3.72	2.46	4.67
1976	36.96	17.41	8.69	4.23	2.18	3.96
1977	45.04	20.92	10.20	5.85	2.45	5.62
1978						
1st Qtr	10.80	5.25	2.37	1.37	0.48	1.33
CANADA						
1975	33.84	26.30	1.73	0.71	1.20	2.00
1976	40.18	32.01	2.03	0.81	1.25	2.09
1977	42.98	34.77	2.13	0.94	1.06	4.08
1978						
1st Qtr	10.75	8.78	0.55	0.23	0.22	0.97
Apr	4.20	3.44	0.16	0.08	0.07	0.45

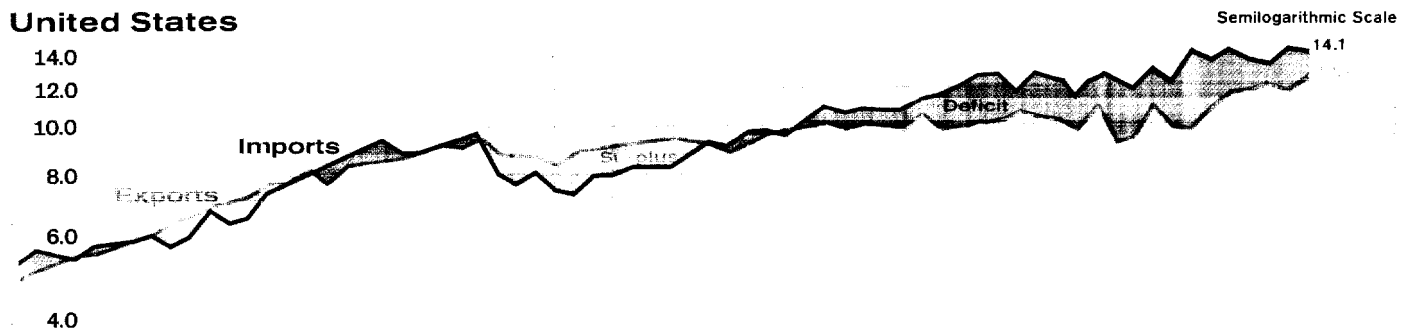
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Developed Countries: Direction of Trade ¹						Billion US \$
	Imports from (c.i.f.)					
	World	Big Seven	Other OECD	OPEC	Communist	Other
UNITED STATES						
1975	103.42	49.81	8.83	18.70	0.98	25.08
1976	129.57	60.39	9.75	27.17	1.16	31.09
1977	156.70	70.48	11.08	35.45	1.22	38.47
1978						
1st Qtr	43.14	20.39	3.51	8.15	0.47	10.62
Apr	15.42	7.54	1.27	2.73	0.18	3.70
JAPAN						
1975	57.85	16.93	6.08	19.40	3.36	12.05
1976	64.89	17.58	7.78	21.88	2.91	14.72
1977	71.33	18.87	7.93	24.33	3.41	16.79
1978						
1st Qtr	18.32	5.04	2.06	6.46	0.87	3.89
Apr	6.28	1.64	0.74	2.01	0.36	1.53
WEST GERMANY						
1975	76.28	27.09	27.78	8.24	4.87	8.21
1976	89.68	31.28	32.64	9.73	5.93	10.01
1977	102.63	36.38	37.37	10.12	6.14	12.62
1978						
1st Qtr	28.24	10.11	10.88	2.32	1.39	3.54
FRANCE						
1975	53.99	23.04	14.33	9.43	1.94	5.21
1976	64.38	27.81	16.93	11.36	2.24	6.01
1977	70.50	30.28	18.24	11.82	2.46	7.70
1978						
1st Qtr	19.76	8.58	5.40	3.05	0.64	2.09
Apr	6.79	3.02	1.84	1.00	0.23	0.70
UNITED KINGDOM						
1975	53.35	18.47	18.52	6.91	1.68	7.67
1976	55.56	19.66	18.81	7.29	2.08	7.65
1977	63.29	24.02	21.34	6.31	2.40	9.22
1978						
1st Qtr	18.87	7.44	6.68	1.80	0.55	2.40
Apr	5.67	2.27	2.04	0.39	0.16	0.81
ITALY						
1975	38.36	17.32	6.75	7.85	2.09	4.34
1976	43.42	19.35	8.04	8.12	2.65	5.24
1977	47.56	20.80	8.67	9.03	2.80	6.26
1978						
1st Qtr	11.26	5.03	2.10	2.18	0.51	1.44
CANADA						
1975	38.59	29.78	1.70	3.43	0.32	2.02
1976	43.05	33.55	1.82	3.48	0.38	2.56
1977	44.67	35.67	1.77	3.05	0.33	3.85
1978						
1st Qtr	10.80	8.60	0.44	0.77	0.08	0.91
Apr	4.61	3.84	0.18	0.03	0.19	0.37

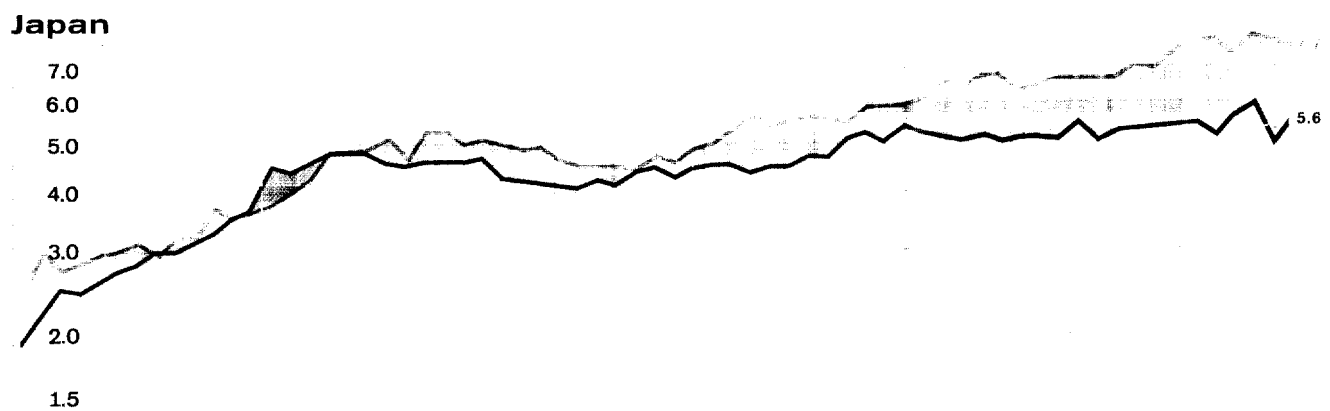
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FOREIGN TRADE BILLION US \$, f.o.b., seasonally adjusted

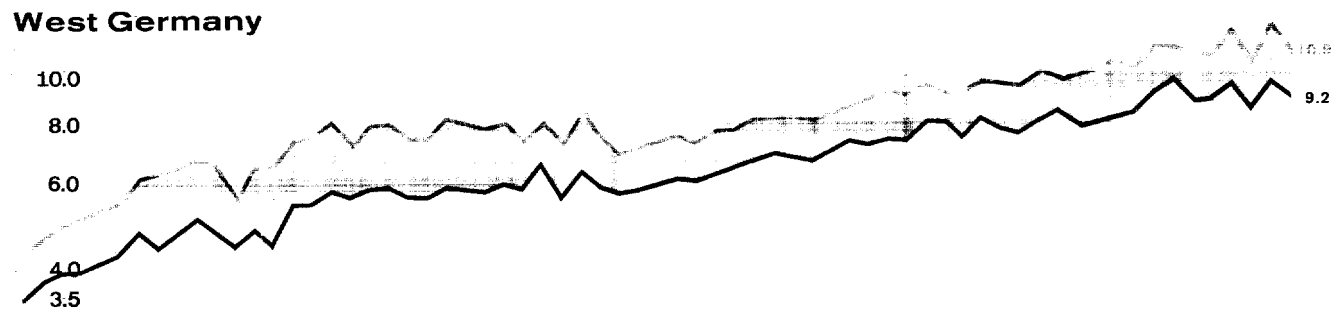
United States



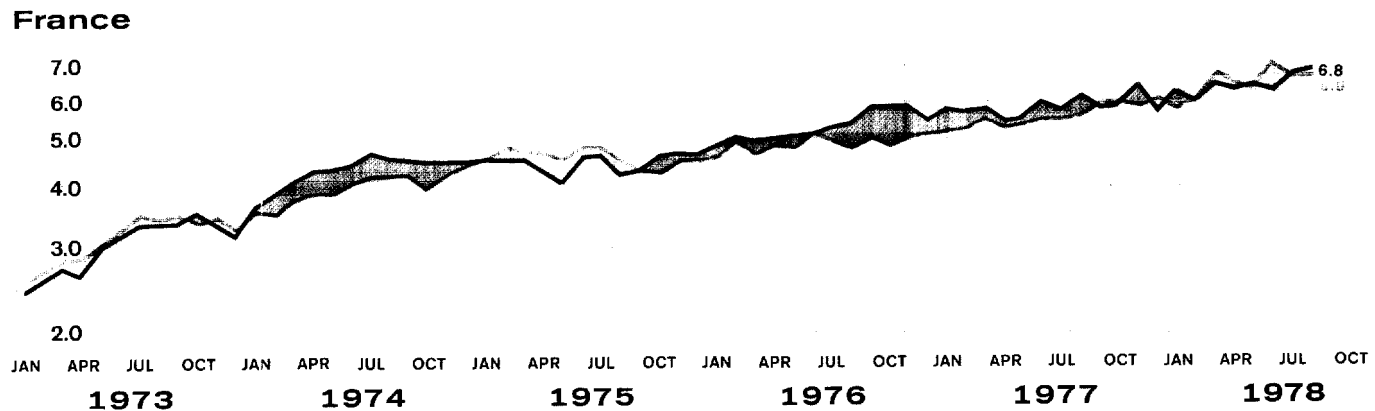
Japan



West Germany

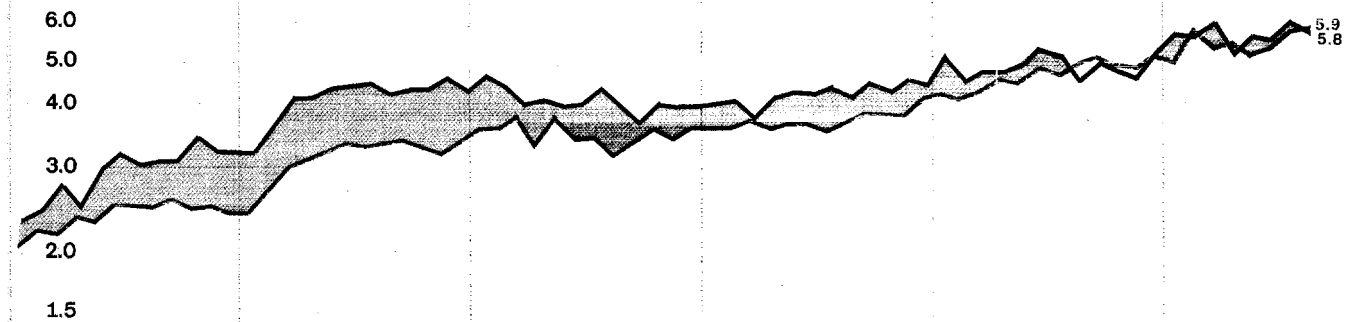


France

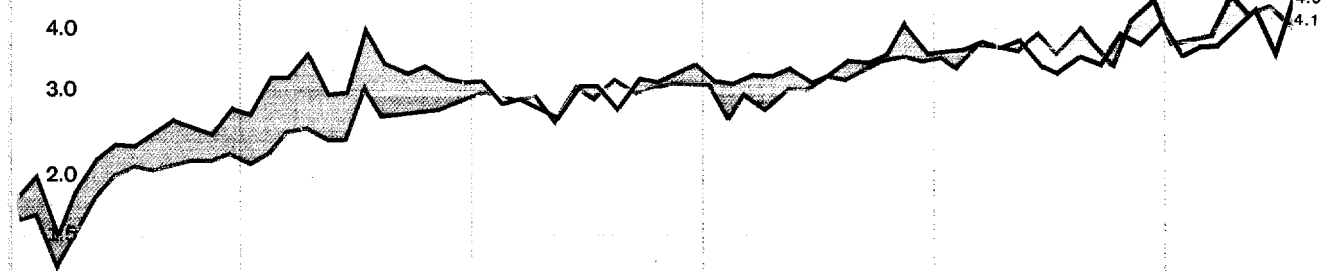


United Kingdom

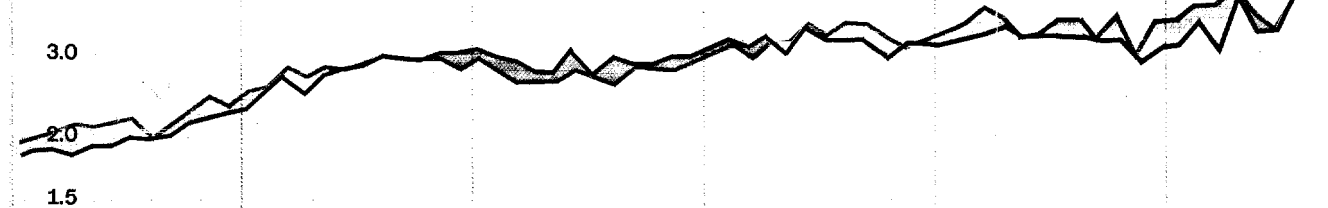
Semilogarithmic Scale



Italy



Canada



JAN APR JUL OCT JAN APR JUL OCT JAN APR JUL OCT JAN APR JUL OCT JAN APR JUL OCT
1973 1974 1975 1976 1977 1978

	LATEST MONTH	MILLION US \$	CUMULATIVE (MILLION US \$)		
			1978	1977	CHANGE
United States	AUG 78	12,469	90,625	80,316	12.8%
		14,090	111,601	96,366	15.8%
	Balance	-1,621	-20,976	-16,050	-4,926
Japan	JUL 78	7,700	54,344	45,157	20.3%
		5,556	37,967	35,555	6.8%
	Balance	2,144	16,377	9,602	6,775
West Germany	JUL 78	10,890	78,259	66,376	17.9%
		9,203	64,604	55,039	17.4%
	Balance	1,687	13,655	11,337	2,318
France	JUL 78	6,598	50,854	41,993	21.1%
	AUG 78	6,842	50,735	44,401	14.3%
	Balance	-244	119	-2,409	2,527

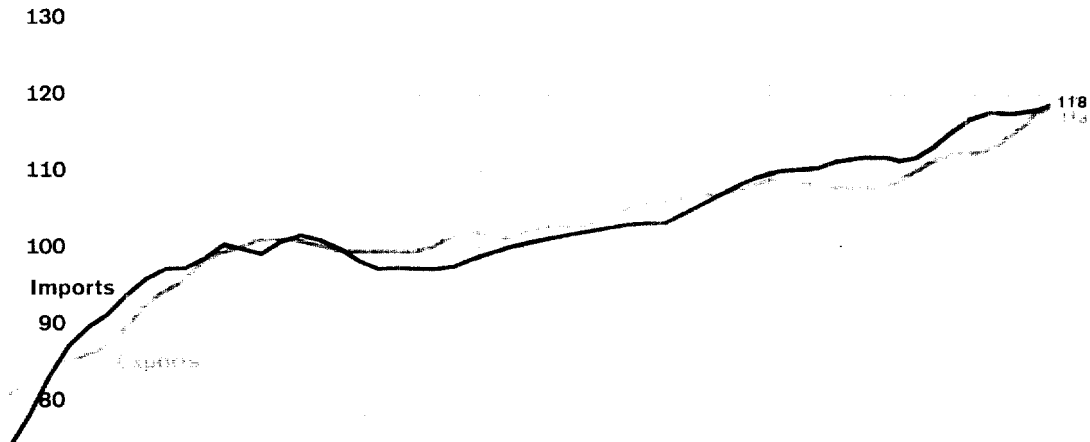
	LATEST MONTH	MILLION US \$	CUMULATIVE (MILLION US \$)		
			1978	1977	CHANGE
United Kingdom	AUG 78	5,865	43,965	36,250	21.3%
		5,752	45,474	39,281	15.8%
	Balance	113	-1,509	-3,031	1,522
Italy	JUL 78	4,096	28,846	25,115	14.9%
		4,626	27,458	25,501	7.7%
	Balance	-529	1,388	-386	1,775
Canada	JUL 78	3,985	26,467	24,385	8.5%
		4,145	25,037	23,352	7.2%
	Balance	-160	1,430	1,033	397

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FOREIGN TRADE PRICES IN US \$¹

United States

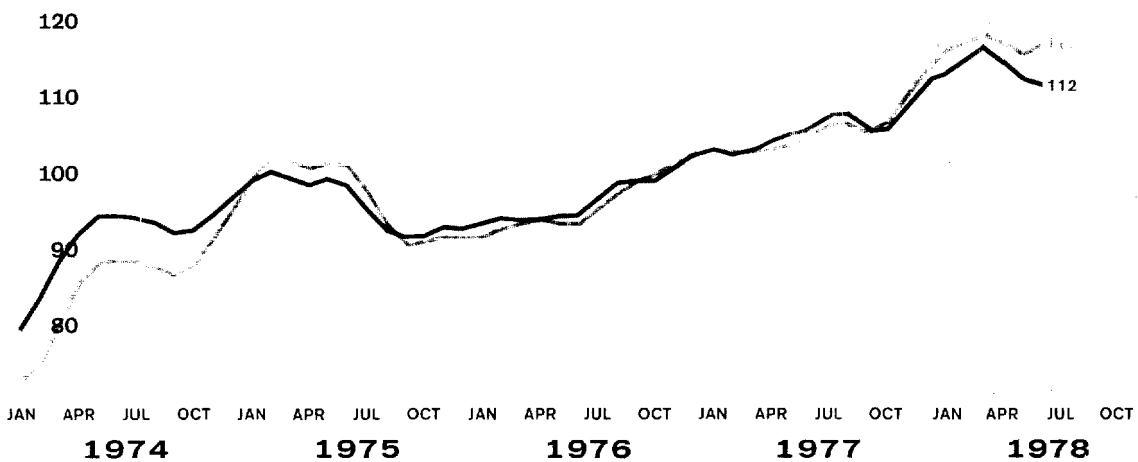
INDEX: JAN 1975 = 100



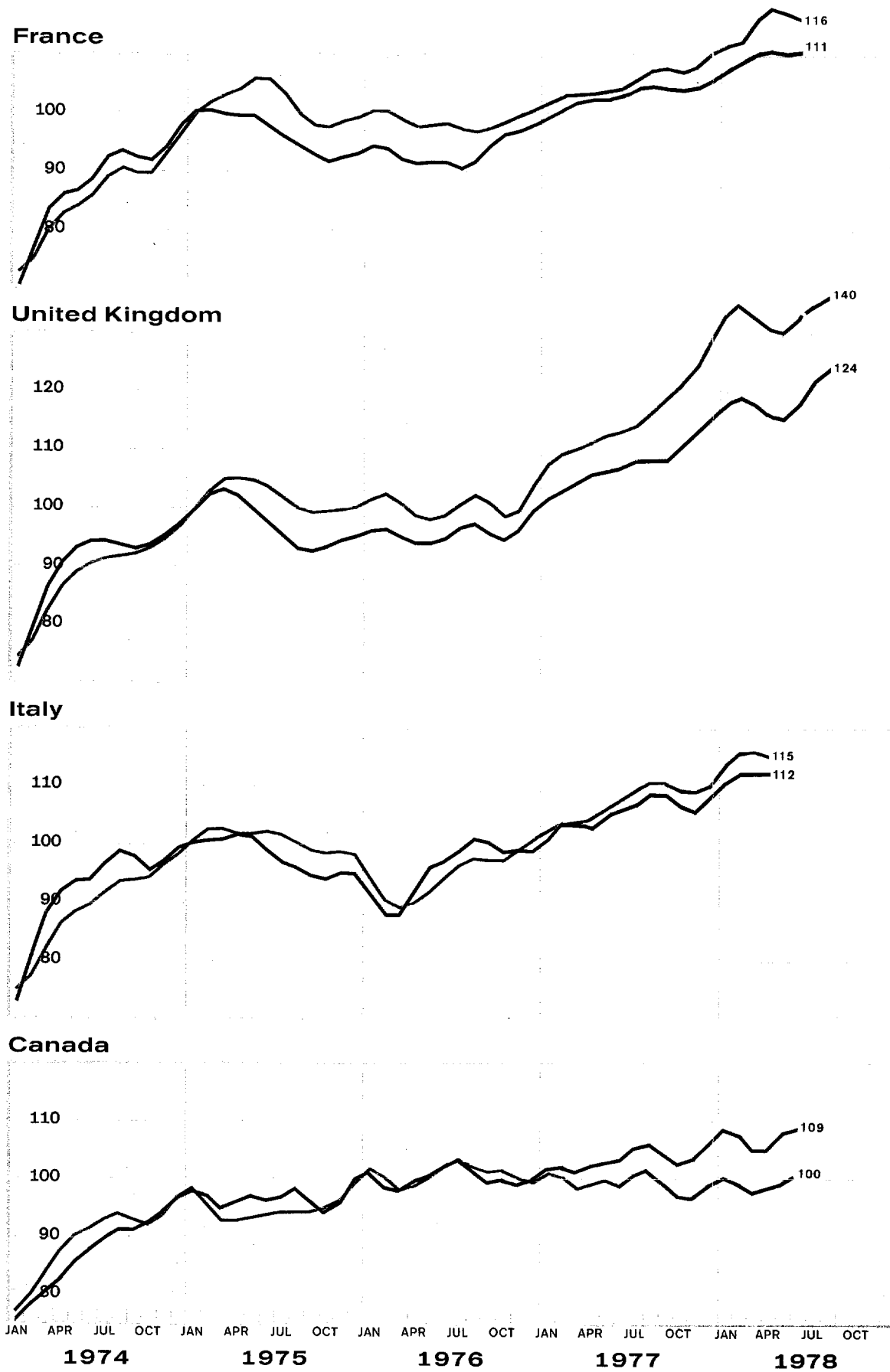
Japan



West Germany



¹Export and import plots are based on five-month weighted moving averages.



SELECTED DEVELOPING COUNTRIES

INDUSTRIAL PRODUCTION ¹

	Latest Period	Percent Change from Previous Period	Average Annual Growth Rate Since		
			Percent Change		
			1970	1 Year Earlier	3 Months Earlier ²
India	May 78	1.3	5.6	9.1	20.6
South Korea	Jun 78	-1.2	22.5	20.1	26.5
Mexico	Apr 78	13.1	6.7	14.1	8.6
Nigeria	78 I	6.8	11.0	0.2	29.9
Taiwan	Jul 78	1.9	16.1	36.1	46.6

¹ Seasonally adjusted.² Average for latest 3 months compared with average for previous 3 months.MONEY SUPPLY ¹

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since		
			Percent Change		
			1970	1 Year Earlier	3 Months Earlier ²
Brazil	Mar 78	2.7	36.4	43.3	34.7
India	Mar 78	2.0	13.8	15.7	15.3
Iran	May 78	0.4	29.0	21.4	66.2
South Korea	Jun 78	4.3	31.6	30.4	20.9
Mexico	May 78	3.9	20.8	33.0	24.9
Nigeria	Mar 78	5.6	35.3	18.9	3.3
Taiwan	May 78	0.6	25.1	32.8	40.8
Thailand	Jan 78	2.7	13.2	13.7	21.5

¹ Seasonally adjusted.² Average for latest 3 months compared with average for previous 3 months.

CONSUMER PRICES

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since	
			Percent Change	
			1970	1 Year Earlier
Brazil	Jun 78	4.1	28.3	38.0
India	May 78	0.3	7.4	1.6
Iran	Jun 78	-0.1	12.2	10.2
South Korea	Aug 78	0.3	14.5	13.5
Mexico	Jun 78	1.4	15.0	17.3
Nigeria	Dec 77	2.9	16.5	30.6
Taiwan	Jul 78	-0.3	9.7	3.0
Thailand	Apr 78	1.0	8.6	8.8

WHOLESALE PRICES

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since	
			Percent Change	
			1970	1 Year Earlier
Brazil	May 78	3.4	28.4	34.5
India	May 78	0.6	8.0	-2.8
Iran	Jun 78	-1.3	10.7	9.3
South Korea	Aug 78	0.1	15.7	10.9
Mexico	Jun 78	1.3	16.6	16.8
Taiwan	Jul 78	0	8.1	1.6
Thailand	Jan 78	-0.2	9.5	6.4

EXPORT PRICES

US \$

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since	
			Percent Change	
			1970	1 Year Earlier
Brazil	Feb 78	0.4	14.0	1.5
India	Mar 77	-0.9	9.6	17.9
Iran	Jun 78	0	30.8	0
South Korea	78 I	0.7	8.7	7.7
Nigeria	May 76	-0.1	27.3	12.3
Taiwan	Jun 78	8.2	12.1	9.6
Thailand	Dec 76	2.0	13.3	13.1

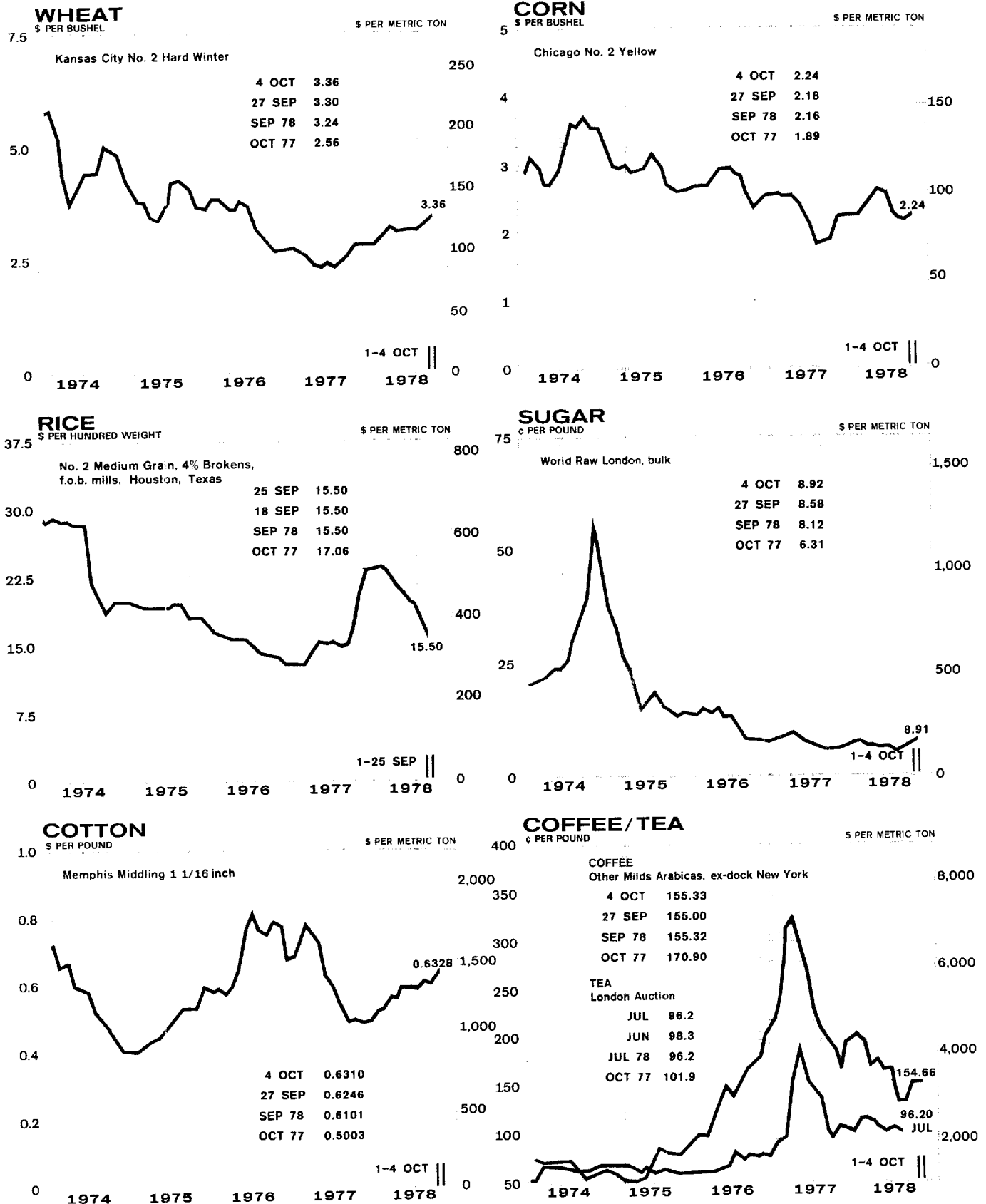
OFFICIAL RESERVES

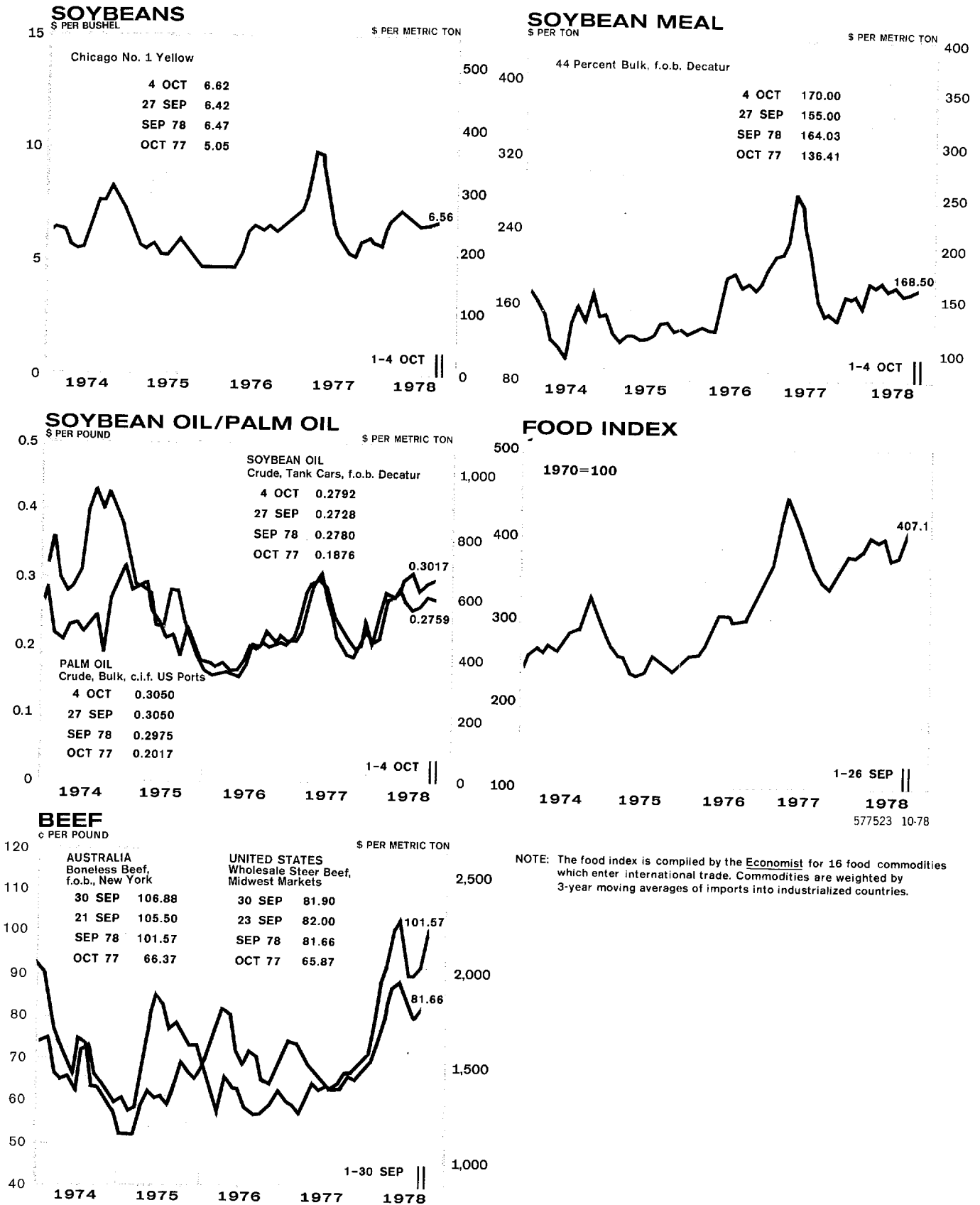
	Latest Month	End of	Million US \$			
			Percent Change			
			Million US \$	Jun 1970	1 Year Earlier	3 Months Earlier
Brazil	Feb 78		6,733	1,013	5,878	5,994
India	May 78		6,123	1,006	4,431	5,563
Iran	Jul 78		11,982	208	11,592	12,584
South Korea	Jun 78		4,199	602	3,502	4,269
Mexico	Mar 78		1,766	695	1,422	1,723
Nigeria	Jul 78		1,853	148	4,495	3,768
Taiwan	Jun 78		1,462	531	1,411	1,433
Thailand	Jun 78		2,161	978	2,017	2,161

FOREIGN TRADE, f.o.b.

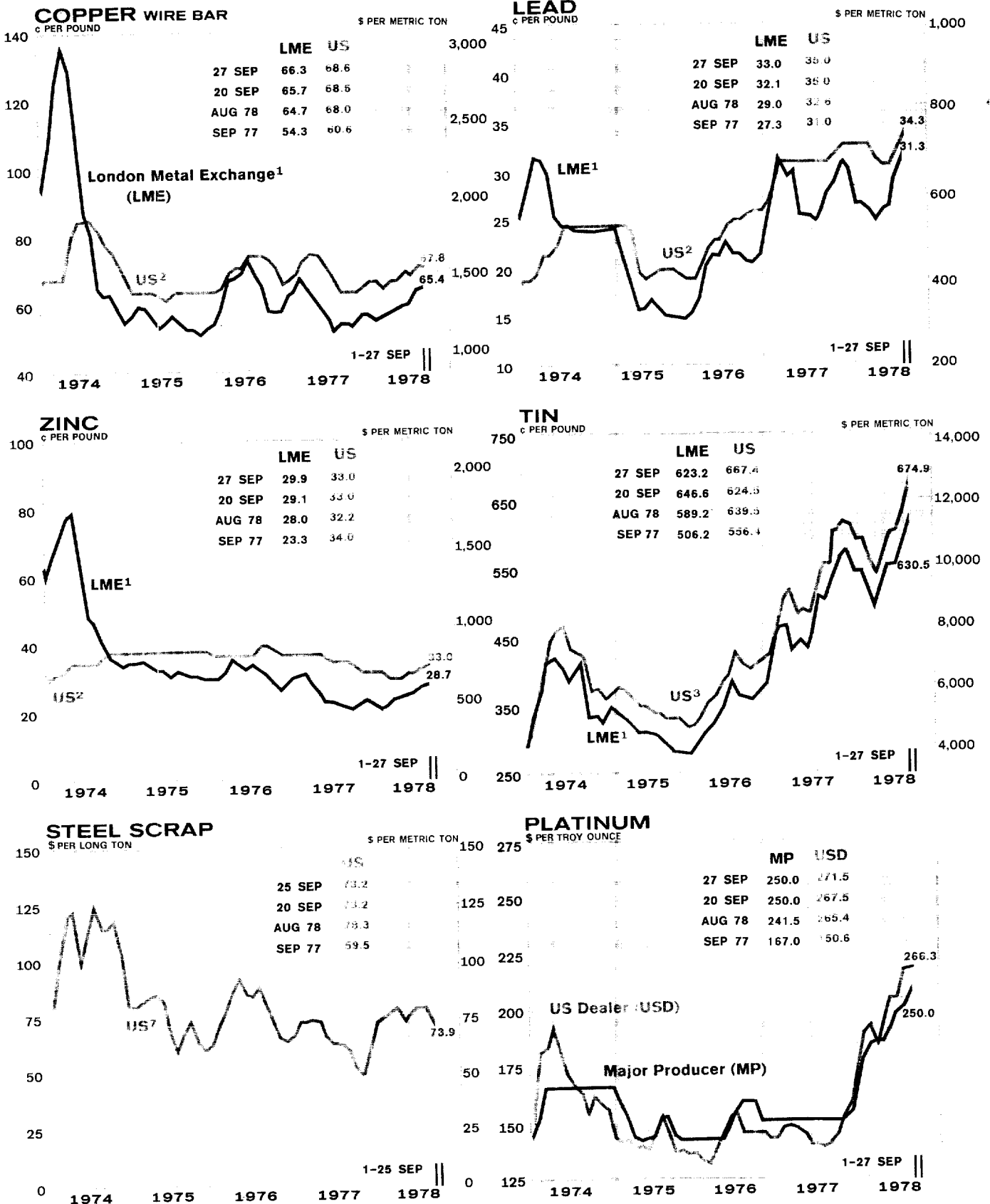
			Latest 3 Months Percent Change from		Cumulative (Million US \$)		
Latest Period			3 Months Earlier ¹	1 Year Earlier	1978	1977	Change
Brazil	May 78	Exports	84.8	-3.7	4,743	4,979	-4.7%
	May 78	Imports	26.6	1.4	5,110	4,939	3.5%
	May 78	Balance			-367	40	-407
India	Mar 78	Exports	-19.6	-8.9	1,476	1,620	-8.9%
	Mar 78	Imports	-24.0	9.9	1,444	1,315	9.9%
	Mar 78	Balance			32	306	-273
Iran	Jun 78	Exports	29.9	3.4	11,756	11,902	-1.2%
	May 78	Imports	-1.6	1.6	5,705	5,259	8.5%
	May 78	Balance			4,087	4,871	-783
South Korea	Jul 78	Exports	39.2	23.5	6,750	5,351	26.1%
	Jul 78	Imports	82.2	29.2	7,287	5,695	28.0%
	Jul 78	Balance			-537	-344	-193
Mexico	May 78	Exports	-2.2	6.5	2,037	1,773	14.9%
	May 78	Imports	11.6	25.7	2,340	1,868	25.3%
	May 78	Balance			-304	-95	-209
Nigeria	Jun 78	Exports	90.8	-21.8	1,810	2,451	-26.1%
	Mar 78	Imports	579.9	115.0	1,808	841	115.0%
	Mar 78	Balance			-976	359	-1,335
Taiwan	Jul 78	Exports	206.6	33.8	6,733	5,056	33.2%
	Jul 78	Imports	116.8	24.1	5,474	4,439	23.3%
	Jul 78	Balance			1,259	617	641
Thailand	Apr 78	Exports	27.0	3.2	1,277	1,221	4.6%
	Apr 78	Imports	-6.5	14.3	1,449	1,251	15.8%
	Apr 78	Balance			-172	-30	-141

¹ At annual rates.

AGRICULTURAL PRICES MONTHLY AVERAGE CASH PRICE

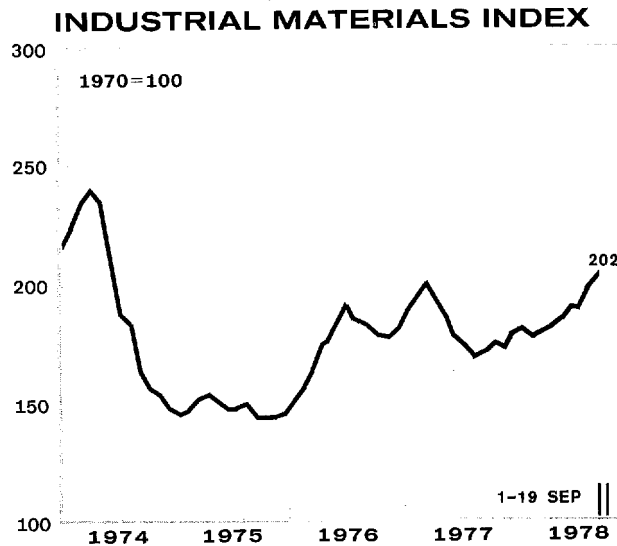
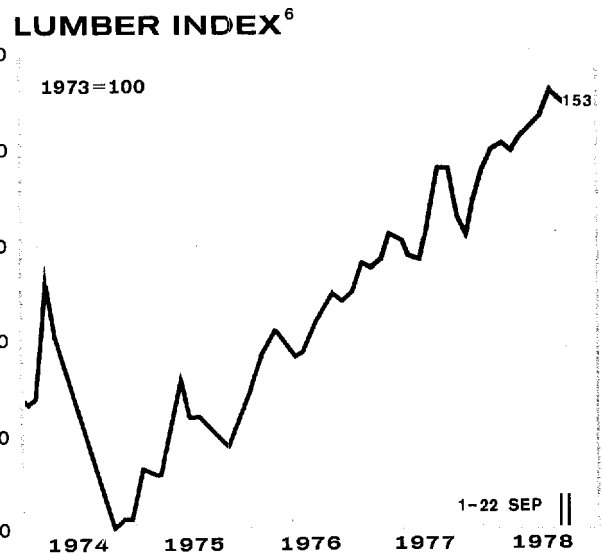
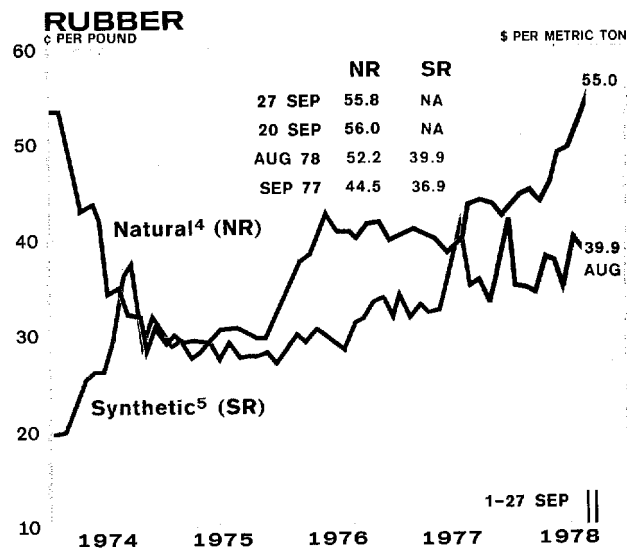


INDUSTRIAL MATERIALS PRICES MONTHLY AVERAGE CASH PRICE



SELECTED MATERIALS

			CURRENT	MAR 78	SEP 77	SEP 76
ALUMINUM	Major US Producer	£ per pound	55.00	53.00	53.00	48.00
US STEEL	Composite	\$ per long ton	419.31	389.60	359.36	327.00
IRON ORE	Non-Bessemer Old Range	\$ per long ton	22.55	21.43	21.43	20.51
CHROME ORE	Russian, Metallurgical Grade	\$ per metric ton	NA	NA	150.00	150.00
CHROME ORE	S. Africa, Chemical Grade	\$ per long ton	56.00	56.00	58.50	42.00
FERROCHROME	US Producer, 66-70 Percent	£ per pound	42.00	41.00	41.00	44.00
NICKEL	Composite US Producer	\$ per pound	2.02	2.06	2.16	2.24
MANGANESE ORE	48 Percent Mn	\$ per long ton	67.20	71.80	72.26	72.00
TUNGSTEN ORE	Contained Metal	\$ per metric ton	18,033.00	18,822.00	19,494.00	16,045.00
MERCURY	New York	\$ per 76 pound flask	156.00	155.17	124.29	116.90
SILVER	LME Cash	£ per troy ounce	562.68	525.95	453.91	428.96
GOLD	London Afternoon Fixing Price	\$ per troy ounce	213.01	183.66	149.52	114.14



¹Approximates world market price frequently used by major world producers and traders, although only small quantities of these metals are actually traded on the LME.

²Producers' price, covers most primary metals sold in the U.S.

³As of 1 Dec 75, US tin price quoted is "Tin NY 1b composite."

⁴Quoted on New York market.

⁵S-type styrene, US export price.

⁶This index is compiled by using the average of 13 types of lumber whose prices are regarded as bellwethers of US lumber construction costs.

⁷Composite price for Chicago, Philadelphia, and Pittsburgh.

NOTE: The industrial materials index is compiled by the *Economist* for 19 raw materials which enter international trade. Commodities are weighted by 3-year moving averages of imports into industrialized countries.

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